NEW ZEALAND ENERGY CORP.

First Quarter 2019
Condensed Consolidated Interim Financial Statements

31 March 2019

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of New Zealand Energy Corp. ("the Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for the review of condensed consolidated interim financial statements by an entity's auditor.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

(Expressed in Canadian Dollars)

	Notes	31 March 2019 $	31 December 2018 $
Assets			
Current			
Cash	3	983,189	1,237,019
Accounts and other receivables	4	1,501,170	2,140,170
Prepaid expenses		159,358	134,020
Inventories	5	757,704	790,181
Total current assets		**3,401,421**	4,301,390
Non-Current			
Inventories	5	584,259	586,381
Property, plant and equipment	6	15,708,927	14,595,173
Total non-current assets		**16,293,186**	15,181,554
Total assets		**19,694,607**	19,482,944
Liabilities			
Current			
Accounts payable and accrued liabilities	8	1,900,290	2,654,826
Asset Retirement Obligation	7	385,183	392,250
Total current liabilities		**2,285,473**	3,047,076
Non-Current			
Asset retirement obligations	7	12,696,554	11,543,073
Total non-current liabilities		**12,696,554**	11,543,073
Total liabilities		**14,982,027**	14,590,149
Shareholders' equity			
Share capital	9	109,738,706	109,738,706
Foreign currency translation reserve		12,163,384	12,182,274
Share based payments reserve		22,638,999	22,638,999
Accumulated deficit		(139,809,509)	(139,667,184)
Total shareholders' equity		**4,712,580**	4,892,795
Total liabilities and shareholders' equity		**19,694,607**	19,482,944

Description of business and going concern (Note 1)

These unaudited condensed consolidated interim financial statements are authorized for issuance by the Board of Directors on 30 May 2019.

On behalf of the Board of Directors

"James Willis"
James Willis, Director

"Mark Dunphy"
Mark Dunphy, Director

See accompanying notes to the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Note	Number of shares	Share Capital $	Share based payments reserve (options) $	Share based payments reserve (warrants) $	Foreign currency translation reserve $	Accumulated deficit $	Total equity $
Balance, 1 January 2018		232,123,459	109,738,706	21,265,393	1,349,289	12,052,627	(138,670,524)	5,735,491
Share based compensation	9(a)	-	-	12,159	-	-	-	12,159
Net loss for the period		-	-	-	-	-	(544,772)	(544,772)
Other comprehensive income for the period		-	-	-	-	246,001	-	246,001
Balance, 31 March 2018		**232,123,459**	**109,738,706**	**21,277,552**	**1,349,289**	**12,298,628**	**(139,215,296)**	**5,448,879**
Balance, 1 January 2019		232,123,459	109,738,706	21,289,710	1,349,289	12,182,274	(139,667,184)	4,892,795
Share based compensation	9(a)	-	-	-	-	-	-	-
Net loss for the period		-	-	-	-	-	(161,325)	(161,325)
Other comprehensive income for the period		-	-	-	-	(18,890)	-	(18,890)
Balance, 31 March 2019		232,123,459	109,738,706	21,289,710	**1,349,289**	**12,163,384**	**(139,809,485)**	**4,712,580**

See accompanying notes to the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

	Notes	31 March 2019	31 March 2018
		$	$
Revenues			
Revenue	10	2,700,844	2,079,778
Royalties		(69,325)	(37,481)
		2,631,519	2,042,297
Expenses and other items			
Production costs		279,928	277,792
Purchased oil	10	888,426	723,177
Processing costs		326,850	236,098
Depreciation and depletion	6	312,890	379,102
Share-based compensation	9(a)	-	12,159
General and administrative	11	907,227	896,628
Finance expense		70,478	116,712
Foreign exchange loss (gain)		5,094	7,500
Abandonment provision movement		1,950	(62,100)
		2,792,843	2,587,068
Net loss		**(161,325)**	(544,772)
Other comprehensive income/(loss):			
Exchange difference on translation of foreign currency (i)		(18,890)	246,001
Total comprehensive loss		**(180,215)**	(298,771)
Basic and diluted loss per share		$ (0.001)	$ (0.002)
Weighted average shares outstanding		232,123,459	232,123,459

(i) Exchange difference on translation of foreign currency may be subsequently reclassified as profit and loss.

See accompanying notes to the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Canadian Dollars)

	Notes	31 March 2019 $	31 March 2018 $
Operating activities			
Net loss for the period		(161,325)	(544,772)
Changes for non-cash operating items			
Share-based compensation		-	12,159
Depreciation, depletion and accretion		376,615	464,500
Abandonment provision movement		1,950	(62,100)
Foreign exchange loss		5,094	7,500
Change in non-cash working capital items			
Accounts and other receivables		627,610	1,183,147
Prepaid expenses		29,460	(26,362)
Inventories		(25,672)	(143,773)
Accounts payable and accrued liabilities		(1,022,428)	(778,373)
Cash provided by (used in) operating activities		**(168,695)**	111,926
Investing activities			
Purchase of property, plant and equipment		(110,005)	(200,422)
Cash used in investing activities		**(110,005)**	(200,422)
Financing activities			
Revolving credit facility		-	90,608
Cash provided by (used in) financing activities		**-**	90,608
Net increase (decrease) in cash and cash equivalents		**(278,700)**	**2,112**
Effect of exchange rate changes on cash		24,870	(20,623)
Cash and equivalents, beginning of the period		1,237,019	55,351
Cash, end of the period	3	**983,189**	36,840

Supplemental cash-flow disclosures		
Changes in accounts payable related to property plant and equipment	284,941	200,422
Cash interest paid	-	5,583

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

New Zealand Energy Corp. (the "Company") commenced operations on 19 April 2010 through its now wholly-owned subsidiary, East Coast Energy Ventures Limited. The Company was subsequently incorporated on 29 October 2010 under the name 0894134 B.C. Ltd. pursuant to the *Business Corporation Act* (British Columbia). On 10 November 2010, 0894134 B.C. Ltd. changed its name to New Zealand Energy Corp.

The Company, through its subsidiaries, is engaged in the exploration and production of oil and natural gas, as well as the operation of midstream assets, in New Zealand.

The Company's registered and records office is located at Suite 2800, Park Place, 666 Burrard St, Vancouver BC V6C 2Z7. The Company's principal place of business is 14 Connett Road, New Plymouth, New Zealand 4312.

The Company's shares are listed on the TSX Venture Exchange under the symbol "NZ".

Going Concern

The Group has improved its financial position during 2019 and continues to pursue a number of options to continue to improve its financial capacity. This includes increasing cash flow from oil and gas production (including development of the enhanced oil project and installation of the Ngaere-1 ESP in April 2019), maintaining credit facilities, new commercial arrangements or other financing alternatives.

The Group has prepared these consolidated financial statements using International Financial Reporting Standards ("IFRS") applicable to a going concern. The going concern principle contemplates that the entity will continue in operation for the foreseeable future and has the ability to settle its liabilities in the normal course of business as they come due. Material uncertainty exists related to certain conditions that may cast significant doubt on the validity of this assumption. For the quarter ended 31 March 2019, the Group reported a Net Loss of $161,325 (2018: Loss $544,772) and a cash outflow from operating activities of $168,695 (2018: inflow $111,926) and as at that date, the Group had working capital of $1,115,948 (2018: -$109,862).

The Group's ability to continue as a going concern is reliant upon its ability to generate budgeted cash flows from operations which are reliant on achieving planned production levels and forecast oil prices, all of which are uncertain. The Group also has several permit expenditure plans (Note 15) which are associated with the Group's interest in its oil and gas properties and exploration and evaluation assets.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used, would be necessary if the Company were unable to realize its assets and settle its liabilities in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies specific to certain balances are described within the detailed note in the sections below.

General accounting policies adhered to in these financial statements are as follows:

Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as issued by the IASB and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Except as disclosed in the Changes in Accounting Policies below, the Company has used the same accounting policies and methods of computation as in the audited annual consolidated financial statements for the year ended 31 December 2018.

Changes in Accounting Policies

IFRS 16 “Leases”

NZEC adopted IFRS 16 on 1 January 2019, which replaces IAS 17 “Leases”, and requires a recognition of lease assets and lease liabilities on the balance sheet. The standard essentially eliminates the classification of operating or finances leases, rather treating all leases as finance leases if NZEC has a right to use an identifiable asset. NZEC has used the modified retrospective approach which does not require restatement of prior period financial information - it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, NZEC did not identify any material differences from its current recognition practice and no adoption adjustments were made. This is principally due to the short-term duration of the majority of the company’s leases and the exclusion of leases to explore for or use hydrocarbons from the scope of IFRS 16. In applying IFRS 16 for the first time, NZEC has used the following practical expedients permitted by the standard:

- the accounting for leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the accounting for lease payments as an expense and not recognise a right-of-use asset if the underlying asset is of low dollar value.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective 1 January 2019:

Leases
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability. NZEC will continue to use the ‘short term’ and ‘low value’ exemptions where applicable.

In determining the impact as immaterial the following key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the Company or are not expected to have a material impact on the Company’s consolidated financial statements and therefore have not been discussed.

(Expressed in Canadian Dollars)

3. CASH AND REVOLVING CREDIT FACILITY

	31 March 2019 $	31 December 2018 $
Cash	983,189	1,237,019
Revolving credit facility	-	-

4. ACCOUNTS AND OTHER RECEIVABLES

	Note	31 March 2019 $	31 December 2018 $
Trade receivables		1,208,602	1,121,139
GST receivable		20,381	13,091
Financial receivable from related party	12	-	901,460
Other receivables		272,187	104,480
Total Current Accounts and other receivables		**1,501,170**	2,140,170

5. INVENTORIES

	31 March 2019 $	31 December 2018 $
Material and supplies	203,389	211,748
Oil inventories	554,315	578,433
	757,704	790,181
Non-current material and supplies	1,412,344	1,417,465
Less write down provision to NRV	(828,085)	(831,084)
	584,259	586,381

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Cost					
Balance, 1 January 2018	331,324	1,357,004	8,139,343	22,665,832	32,493,503
Additions	-	-	31,187	423,402	454,589
Disposals	-	-	(171,070)	-	(171,070)
Impairment	-	-	(441,580)	(477,737)	(919,317)
Change in asset retirement cost due to change in estimate	-	-	(233,215)	27,757	(205,458)
Foreign currency translation adjustment	7,242	35,166	196,940	583,045	822,393
Balance, 31 December 2018	**338,566**	**1,392,170**	**7,521,605**	**23,222,299**	**32,474,640**
Additions	1,169	-	75,119	279,350	355,638
Change in asset retirement cost due to change in estimate	-	-	843,552	279,501	1,123,053
Foreign currency translation adjustment	(1,029)	(5,024)	(21,954)	(80,344)	(108,351)
Balance, 31 March 2019	**338,706**	**1,387,146**	**8,418,322**	**23,700,806**	**33,844,980**

(Expressed in Canadian Dollars)

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Accumulated depreciation					
Balance, 1 January 2018	214,807	-	1,733,838	13,977,516	15,926,161
Depreciation and depletion	12,015	-	429,470	1,069,874	1,511,359
Disposals	-	-	-	-	-
Foreign currency translation adjustment	5,703	-	53,308	382,936	441,947
Balance, 31 December 2018	**232,525**	**-**	**2,216,616**	**15,430,326**	**17,879,467**
Depreciation and depletion	3,090	-	108,337	207,627	319,054
Foreign currency translation adjustment	(806)	-	(7,379)	(54,282)	(62,468)
Balance, 31 March 2019	**234,809**	**-**	**2,317,574**	**15,583,671**	**18,136,053**
Net Book Value					
Balance, 31 December 2018	106,041	1,392,170	5,304,989	7,791,973	14,595,173
Balance, 31 March 2019	**103,898**	**1,387,147**	**6,100,748**	**8,117,135**	**15,708,927**

7. LONG TERM ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim its wells in certain licences and permits, and restoration obligations associated with the land at the Waihapa Production Station together with the estimated timing of the costs to be paid in future periods.

Non-Current	**$**
Balance, 1 January 2018	**11,628,588**
Change in estimate	(286,352)
Accretion expense for the year	291,637
Reclassified as current	(392,250)
Foreign currency translation adjustment	301,451
Balance, 31 December 2018	**11,543,073**
Change in estimate	1,130,621
Accretion expense for the year	57,560
Reclassified as current	-
Foreign currency translation adjustment	(34,700)
Balance, 31 March 2019	**12,696,554**

Current	
Balance, 31 December 2018	392,250
Balance, 31 March 2019	385,183

Assumptions	**2019**	**2018**
Total undiscounted value of payments	$22,455,668	$22,645,310
Discount rate	1.59%-2.02%	1.74% to 2.45%
Inflation rate	2%	2%
Expected life	1 to 37 years	1 to 37 years

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	31 March 2019 $	31 December 2018 $
Trade payables		1,427,102	1,195,353
GST payable		37,111	142,768
Financial payable	12	-	901,460
Accrued liabilities		436,077	415,245
Total Accounts payable and accrued liabilities		**1,900,290**	2,654,826

9. SHARE CAPITAL

a) Share purchase options

Pursuant to the Company's share option plan, non-transferable options to purchase common shares must not exceed 10% of the number of then outstanding common shares, or 23,212,346 options, based on the total issued and outstanding common shares as at 31 March 2019. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

Options activity

	Number of options	Weighted average exercise price $
Outstanding at 1 January 2018	10,815,200	0.08
Expired	(105,200)	0.45
Forfeited	(144,000)	0.45
Total Outstanding 31 December 2018	10,566,000	0.07
Expired	(324,000)	0.45
Total Outstanding 31 March 2019	**10,242,000**	**0.06**

Options outstanding and exercisable		31 March 2019		31 December 2018	
	Exercise price $	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
Options outstanding	0.05	10,000,000	1.25	10,000,000	1.50
Options outstanding	0.45	242,000	0.55	566,000	0.39
Total options outstanding		10,242,000	1.24	10,566,000	1.44
Options exercisable	0.05	10,000,000	1.25	10,000,000	1.50
Options exercisable	0.45	242,000	0.55	566,000	0.39
Total options exercisable		10,242,000	1.24	10,566,000	1.44

Options expense and assumptions	31 March 2019	31 March 2018
Expense	-	$12,159
Black-Scholes option pricing model assumptions for new options granted:		
Risk-free interest rate	N/A*	N/A*
Expected volatility	N/A*	N/A*
Expected life	N/A*	N/A*
Expected dividend yield	N/A*	N/A*

**No new options granted in 2019 or 2018. As at 31 March, Officers held 10,000,000 (Dec 2018: 10,220,000) outstanding and exercisable options.

(Expressed in Canadian Dollars)

b) Warrants

Warrants activity

	Number of warrants	Weighted average exercise price $
Outstanding at 1 January 2018	41,452,178	0.29
Total Outstanding 31 December 2018 and 31 March 2019	Nil	N/A

10. REVENUE

	Note	31 March 2019 $	31 March 2018 $
Oil sales		1,090,566	546,149
Gas sales		-	52,081
Processing revenue		619,707	646,462
Interest revenue		12,958	31,196
Other revenue		89,187	80,713
		1,812,418	**1,356,601**
Purchased oil sold	i)	888,426	723,177
Other income		**-**	-
Total Revenue		**2,700,844**	**2,079,778**

i) The Company has an arrangement with a third party whereby the Company purchases oil, charges a processing fee and subsequently sells the oil where NZEC is the principal party. Any unsold oil is carried as inventory.

11. GENERAL AND ADMINISTRATIVE EXPENSES

	31 March 2019 $	31 March 2018 $
Professional fees	70,701	97,028
Consulting fees	37,559	13,122
Travel and promotion	9,172	12,634
Administrative expenses	75,535	54,780
Rent	11,022	16,295
Filing and transfer agent fees	6,346	10,636
Insurance	47,311	35,752
Salary and wages	649,581	656,381
	907,227	**896,628**

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS

Entities associated (by virtue of there being a common director) with the Company include: Greymouth Petroleum Limited, Tiger Drilling Ltd and GMP Environmental Ltd. The following transactions and balances with these related parties are:

	Note	31 March 2019 $	31 March 2018 $
Processing revenue		78,751	79,217
Production costs		159,597	160,060
Trade receivables		18,323	31,603
Trade payables		440,857	440,857
Oil & Gas properties expenditure		265,335	200,422
Total settlement for royalty discharge	i)	-	-
Current financial receivable	i)	-	966,408

i) In March 2017 Taranaki Ventures Limited (TVL) acquired an Overriding Royalty (Royalty Agreement) from a third party which contained an obligation due by a related party of TVL. Concurrently TVL agreed to fully discharge and cancel the related party's obligations under the Royalty Agreement in return for payment from the related party. Payment to the third party (Note 8) and receipt from the related party (Note 4) was spread over 2 years, with future payments and receipts secured by back to back bank guarantees. The arrangement was fully completed and all obligations discharged in March 2019.

Key Management and Personnel Compensation

The key management personnel include the directors and other officers of the Company. Key management compensation consists of the following:

	31 March 2019 $	31 March 2017 $
Salary and consulting fees	217,685	214,808
Share based compensation	-	12,159
	217,685	**226,967**
Included in the above amounts are:		
Upstream Consulting Ltd (James Willis)	8,153	8,312
Arenig Energy Ltd (David Llewellyn)	6,115	6,212
Michael Adams Reservoir Engineering Ltd (Michael Adams)	95,120	125,725

13. SEGMENTED DISCLOSURES

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Chief Executive Officer.

The Company conducts its business as a single operating segment being the acquisition, exploration, development and production of conventional oil and natural gas resources in New Zealand. The Company's geographic area for all assets, liabilities and revenues is New Zealand.

(Expressed in Canadian Dollars)

14. COMMITMENTS

As at 31 March 2019, the Company had the following undiscounted contractual obligations:

	2019 $	2020 to 2021 $	2022 and onwards $	Total $
Contract and purchase commitments*	**599,000**	**491,000**	**235,000**	**1,325,000**

*Contract commitments (2019) includes $48,000 for the enhanced oil recovery project. Expenditure to date is included in Note 6 (Property, Plant and Equipment). Total anticipated cost is also disclosed in the Permit Expenditure Plans for Waihapa Ngaere Licence (see Note 15).

Bank Guarantees
Bonds provided to the Crown in respect of the Tariki, Waihapa and Ngaere petroleum mining licences are secured by bank guarantees provided by Bank of New Zealand (NZD375,000).

These bank guarantees are secured by way of general security agreement over the present and after acquired assets of Taranaki Ventures Limited (TVL) with NZEC subsidiaries NZEC Holdings Limited, NZEC Tariki Limited, NZEC Waihapa Limited and NZEC Management Limited guaranteeing the obligations of TVL under the facility.

15. PERMIT EXPENDITURE PLANS

The Group undertakes oil and gas production, development and exploration activities and has plans to complete certain exploration activities. Certain permits and licences held by the Group require various work obligations to be performed in order to maintain the permits or licences in good standing. The Group and, where relevant, its co-venturers in a permit, may apply to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out an interest in permits. The permit expenditure plans include those required to maintain its permits in good standing during the current permit term, prior to the Group committing to the next stage of the permit term, where additional expenditure would be required.

Maintaining the permits in good standing during the permit term is based on the fulfilment of the work program and is not based on a specific expenditure level. The anticipated cost of the works planned are set out below and relate to the following permits/licences (in the Taranaki Basin):

Permit/Licence	Note	Type	2019 $	2020 to 2021 $	2022 and onwards $	Total $
Eltham Permit	1	Exploration	-	-	-	-
Tariki Licence	2	Producing	54,000	991,000	-	1,045,000
Waihapa Ngaere Licence	3	Producing	48,000	23,000	33,000	104,000
			102,000	**1,014,000**	**33,000**	**1,149,000**

i. Eltham (PEP51150): the permit expired on 22 September 2018. An Appraisal Extension Application has been lodged (with the regulatory authority) with a modified Work Program and over a reduced area of PEP 51150.
ii. Tariki: 2021 - implement project for gas recovery, drill well or sidetrack, and prepare updated field development plan.
iii. Waihapa Ngaere: 2019 – complete implementation of enhanced oil recovery project started in 2018. See Note 18 Commitments.

16. SUBSEQUENT EVENTS

There have been no subsequent events.