



Second Quarter 2020
Condensed Consolidated Interim Financial Statements
30 June 2020

(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	30 June 2020 \$	31 December 2019 \$
Assets			
<i>Current</i>			
Cash	3	408,522	1,474,809
Accounts and other receivables	4	480,160	748,525
Prepaid expenses		142,126	196,510
Inventories	5	585,767	767,146
<i>Total current assets</i>		1,616,575	3,186,990
<i>Non-Current</i>			
Inventories	5	460,412	463,749
Property, plant and equipment	6	14,014,497	13,198,851
<i>Total non-current assets</i>		14,474,909	13,662,600
<i>Total assets</i>		16,091,484	16,849,590
Liabilities			
<i>Current</i>			
Accounts payable and accrued liabilities	8	867,782	1,448,861
Asset retirement obligation	7	333,310	627,350
<i>Total current liabilities</i>		1,201,092	2,076,211
<i>Non-Current</i>			
Asset retirement obligations	7	13,103,672	11,703,515
<i>Total liabilities</i>		14,304,764	13,779,726
Shareholders' equity			
Share capital	9	109,738,706	109,738,706
Accumulated deficit and reserves		(107,951,986)	(106,668,842)
<i>Total shareholders' equity</i>		1,786,720	3,069,864
<i>Total liabilities and shareholders' equity</i>		16,091,484	16,849,590

Description of business and going concern (Note 1)

These unaudited condensed consolidated financial statements are authorized for issuance by the Board of Directors on **28 August** 2020.

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 financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2020 and 2019
(Expressed in Canadian Dollars)

	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 2019	232,123,459	109,738,706	21,289,710	1,349,289	12,182,274	(139,667,184)	4,892,795
Net loss for the period	-	-	-	-	-	(685,830)	(685,830)
Other comprehensive income for the period	-	-	-	-	(188,641)	-	(188,641)
Balance, 30 June 2019	232,123,459	109,738,706	21,289,710	1,349,289	11,993,633	(140,353,014)	4,018,324
Balance, 1 January 2020	232,123,459	109,738,706	21,289,710	1,349,289	11,984,224	(141,292,065)	3,069,864
Net loss for the period	-	-	-	-	-	(1,245,144)	(1,245,144)
Other comprehensive income for the period	-	-	-	-	(38,000)	-	(38,000)
Balance, 30 June 2020	232,123,459	109,738,706	21,289,710	1,349,289	11,946,224	(142,537,209)	1,786,720

See accompanying notes to the unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
For the six month periods ended 30 June 2020 and 2019
(Expressed in Canadian Dollars)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 \$	2019 \$	2020 \$	2019 \$
Revenues					
Revenue	10	1,025,949	2,795,019	2,784,890	5,495,862
Royalties		(15,273)	(89,079)	(66,767)	(158,404)
		<u>1,010,676</u>	<u>2,705,940</u>	<u>2,718,123</u>	<u>5,337,458</u>
Expenses and other items					
Production costs		249,934	606,391	741,773	886,319
Purchased oil	10	118,762	842,574	388,863	1,731,000
Processing costs		196,679	452,291	783,765	779,141
Depreciation and depletion	6	243,231	282,809	502,800	595,699
General and administrative	11	599,952	867,143	1,442,528	1,774,370
Finance expense		43,427	49,376	94,442	119,854
Foreign exchange (gain)/loss		5,590	(9,926)	(2,205)	(4,832)
Inventory write-down		9	-	1,542	-
Abandonment provision movement		7,200	139,787	9,759	141,737
		<u>1,464,784</u>	<u>3,230,445</u>	<u>3,963,267</u>	<u>6,023,288</u>
Net loss		(454,108)	(524,505)	(1,245,144)	(685,830)
Other comprehensive loss:					
Exchange difference on translation of foreign currency (i)		62,956	(169,751)	(38,000)	(188,641)
Total comprehensive loss		(391,152)	(694,256)	(1,283,144)	(874,471)
Basic and diluted loss per share		\$ (0.002)	\$ (0.002)	\$ (0.005)	\$ (0.003)
Weighted average shares outstanding		232,123,459	232,123,459	232,123,459	232,123,459

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

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six month periods ended 30 June 2020 and 2019
(Expressed in Canadian Dollars)

	Notes	Six months ended 30 June	
		2020 \$	2019 \$
Operating activities			
Net loss for the period		(1,245,144)	(685,830)
<i>Changes for non-cash operating items</i>			
Depreciation and depletion		514,943	608,083
Accretion		94,442	106,933
Abandonment provision movement		9,759	141,737
Foreign exchange (gain) / loss		(2,205)	(4,832)
Abandonment provision reversal		(287,262)	-
<i>Change in non-cash working capital items</i>			
Accounts and other receivables		268,365	660,993
Prepaid expenses		54,384	(46,701)
Inventories		184,716	210,452
Accounts payable and accrued liabilities		(581,079)	(860,819)
<i>Cash provided by (used in) operating activities</i>		(989,081)	130,016
Investing activities			
Purchase of oil and gas properties		(50,190)	(348,367)
Purchase of property, plant and equipment		-	(77,551)
<i>Cash provided by (used in) investing activities</i>		(50,190)	(425,918)
Financing activities			
<i>Cash provided by (used in) financing activities</i>		-	-
<i>Net increase (decrease) in cash</i>		(1,039,271)	(295,902)
Effect of exchange rate changes on cash		(27,016)	(36,803)
Cash, beginning of the period		1,474,809	1,237,019
Cash and equivalents, end of the period	4	408,522	904,314
<i>Supplemental cash-flow disclosures</i>			
Changes in accounts payable related to property, plant & equipment		-	3,935
Cash interest received		6,406	-

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

(Expressed in Canadian Dollars)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

New Zealand Energy Corp. (the "Company") commenced operations on 19 April 2010 through 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

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of 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 six months ended 30 June 2020, the Group reported a Net Loss of \$1,245,144 (2019: \$685,830) and a cash outflow from operating activities of \$989,081 (2019: inflow \$130,016). The Group has working capital (total current assets, less total current liabilities) of \$415,483 (2019: \$938,318). In addition, 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.

The Directors have performed a cash flow forecast to assess the Group's ability to continue as a going concern. The Directors have used judgement in the estimation of these forecast cash flows. These judgements include future production levels, forecast oil price of US\$43 / bbl, and assumptions as to the continued availability of the Group's revolving credit facility.

The Group continues to pursue a number of options to improve its financial capacity, including cash flow from oil and gas production, commercial arrangements or other financing alternatives. After balance date the Group implemented a restructuring plan to reduce the Group's costs. These cost reductions have been included within the cash flow forecasts.

The Group's ability to continue as a going concern is reliant upon its ability to retain financing facilities that are currently in place and generate budgeted cash flows from operations which are reliant on achieving planned production levels and forecast oil prices, all of which are uncertain. These factors are considered material uncertainties with respect to the Directors' assessment.

These consolidated financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the Group 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 2019, 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.

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 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

(Expressed in Canadian Dollars)

3. CASH AND CASH EQUIVALENTS AND REVOLVING CREDIT FACILITY

	30 June 2020	31 December 2019
	\$	\$
Cash and cash equivalents	408,522	1,474,809

4. ACCOUNTS AND OTHER RECEIVABLES

	30 June 2020	31 December 2019
	\$	\$
Trade receivables	480,160	747,878
GST receivable	-	647
Total Current Accounts and other receivables	480,160	748,525

5. INVENTORIES

	30 June 2020	31 December 2019
	\$	\$
Current		
Material and supplies	206,767	201,087
Oil inventories	379,000	566,059
	585,767	767,146
Non Current		
Non-current material and supplies	1,347,943	1,353,100
Less write down provision to NRV	(887,531)	(889,351)
	460,412	463,749
Write down Provision to NRV non-current material and supplies		
Opening Balance	(889,351)	(831,084)
Movement in provision recognised as expense	1,820	(89,380)
Provision reversed on material and supplies sold	-	31,113
Closing Balance	(887,531)	(889,351)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixture \$	Land and building \$	Plant and equipment \$	Oil and gas properties \$	Total \$
Cost					
Balance, 1 January 2019	338,566	1,392,170	7,521,605	23,222,299	32,474,640
Additions	4,921	-	254,420	356,094	615,435
Disposals	-	-	(174,481)	-	(174,481)
Change in asset retirement cost due to change in estimate	-	-	(1,049,037)	1,124,833	75,796
Foreign currency translation adjustment	(12,887)	(53,129)	(293,591)	(876,230)	(1,235,837)
Balance, 31 December 2019	330,600	1,339,041	6,258,916	23,826,996	31,755,553
Additions	-	-	-	50,190	50,190
Change in asset retirement cost due to change in estimate	-	-	1,047,065	239,161	1,286,226
Foreign currency translation adjustment	(677)	(2,740)	14,000	(41,106)	(30,523)
Balance, 30 June 2020	329,923	1,336,301	7,319,981	24,075,241	33,061,446
Accumulated depreciation					
Balance, 1 January 2019	232,525	-	2,216,616	15,430,326	17,879,467
Depreciation and depletion	12,692	-	429,219	916,894	1,358,805
Disposals	-	-	(8,357)	-	(8,357)
Foreign currency translation adjustment	(8,788)	-	(81,751)	(582,674)	(673,213)
Balance, 31 December 2019	236,429	-	2,555,727	15,764,546	18,556,702
Depreciation and depletion	6,276	-	203,651	305,015	514,942
Foreign currency translation adjustment	(322)	-	22	(24,395)	(24,695)
Balance, 30 June 2020	242,383	-	2,759,400	16,045,166	19,046,949
Net Book Value					
Balance, 31 December 2019	94,171	1,339,041	3,703,188	8,062,450	13,198,851
Balance, 30 June 2020	87,540	1,336,301	4,560,581	8,030,075	14,014,497

7. ASSET RETIREMENT OBLIGATIONS

The Group'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. The estimated expected life of the long-lived assets is the later of the permit life, or economic life based on proved and probable reserves.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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<u>Non-Current</u>	30 June 2020 \$	31 December 2019 \$
Opening Balance 1 January	11,703,513	11,543,073
Change in estimate	1,293,814	625,009
Accretion expense for the year	94,442	236,228
Reclassified as current	-	(266,095)
Foreign currency translation adjustment	11,903	(434,700)
Closing Balance	13,103,672	11,703,515

Current

Opening Balance 1 January	627,350	392,250
Change in estimate	1,876	(15,918)
Reclassified from non-current	-	266,095
Provision reversal for completed abandonment	(287,262)	-
Foreign currency translation adjustment	(8,654)	(15,077)
Closing Balance 31 December	333,310	627,350

Assumptions

Total undiscounted value of payments	\$20,603,979	\$22,741,138
Discount rate	0.22% to 1.92%	1.06% to 2.79%
Inflation rate	0.83%	2%
Expected life	1 to 36 years	1 to 36 years

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	30 June 2020 \$	31 December 2019 \$
Trade payables		537,980	900,272
GST payable		58,640	146,366
Accrued liabilities - payroll		271,162	402,223
Total Current Accounts payable and accrued liabilities		867,782	1,448,861

9. SHARE CAPITAL

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 30 June 2020. 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.

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(Expressed in Canadian Dollars)

	30 June 2020		31 December 2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at 1 January	10,000,000	0.05	10,566,000	0.07
Expired	(10,000,000)	0.05	(566,000)	0.45
Total Outstanding	-	-	10,000,000	0.05

Options outstanding and exercisable	Exercise price \$	30 June 2020		31 December 2019	
		Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
Options outstanding	0.05	-	-	10,000,000	0.50
Options exercisable	0.05	-	-	10,000,000	0.50

No new options granted in 2020 or 2019.

10. REVENUE

	Note	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		\$	\$	\$	\$
Oil sales		257,820	1,233,070	1,127,571	2,323,636
Gas sales		21,301	-	22,738	-
Processing revenue		554,377	642,534	1,074,918	1,262,241
Interest income		2,826	-	6,406	12,811
Other revenue	a)	70,863	76,841	164,394	166,174
		907,187	1,952,445	2,396,027	3,764,862
Purchased oil sold	b)	118,762	842,574	388,863	1,731,000
Total Revenue		1,025,949	2,795,019	2,784,890	5,495,862

- a) The Group has provided services to a third party, that have been performed through a combination of work by employees and subcontracted companies. NZEC has used judgement and concluded it is the principal party, as it has the performance obligation to the customer, and has discretion in establishing pricing with the customer.
- b) The Group has an arrangement with a third party whereby the Group purchases oil, charges a processing fee and subsequently sells the oil where NZEC is the principal party. Any unsold oil is carried as inventory.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

(Expressed in Canadian Dollars)

11. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	\$	\$	\$	\$
Professional fees	21,489	19,531	93,818	90,232
Consulting fees	49,661	63,669	77,268	101,228
Travel and promotion	1,317	21,166	6,664	30,338
Administrative expenses	68,282	65,440	115,662	140,975
Rent	4,913	10,488	15,059	21,510
Leases	4,247	-	8,119	-
Filing and transfer agent fees	6,536	5,405	12,791	11,751
Insurance	29,791	41,836	83,196	89,147
Salary and wages	413,716	639,608	1,029,951	1,289,189
	599,952	867,143	1,442,528	1,774,370

12. RELATED PARTY TRANSACTIONS

Entities associated (by virtue of there being a common director) with the Company include: Greymouth Petroleum Limited, Tiger Drilling Ltd, GMP Environmental Ltd, Greymouth Gas Taranaki Ltd, and Geoservices Ltd (a 19.82% shareholder in the Company). The following transactions and balances with these related parties are:

	Note	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		\$	\$	\$	\$
Processing revenue		68,390	83,931	143,523	162,683
Production costs		48,844	285,506	124,660	445,102
Processing costs		21,935	-	84,909	-
Rent expense	i)	1,342	-	2,747	-
Trade receivables		26,186	31,644	26,186	31,644
Trade payables		16,604	18,705	16,604	18,705
Oil & Gas properties expenditure		-	265,335	-	265,335

i) Office premises are leased from a related party at token rental. Market rental of these premises is estimated at \$52,000 per annum.

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:

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salary and consulting fees	159,973	234,198	376,953	451,883

Included in the above amounts are:

Upstream Consulting Ltd (James Willis)	3,888	7,964	10,268	16,117
Arenig Energy Ltd (David Llewellyn)	3,076	5,973	8,777	12,088
Michael Adams Reservoir Engineering Ltd (Michael Adams)	65,159	95,601	144,817	190,721

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

(Expressed in Canadian Dollars)

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 Group 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 Group's geographic area for all assets, liabilities and revenues is New Zealand.

14. COMMITMENTS

As at 30 June 2020, the Group had the following undiscounted contractual obligations:

	2020 \$	2021 to 2022 \$	2023 and onwards \$	Total \$
Operating lease obligations	3,000	4,000	-	7,000
Contract and purchase commitments	268,000	385,000	46,000	699,000
	271,000	389,000	46,000	706,000

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 (NZ\$375,000).

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	2020 \$	2021 to 2022 \$	2023 and onwards \$	Total \$
Eltham Permit	i	Exploration	110,000	140,000	-	250,000
Tariki Licence	ii	Producing	-	954,000	-	954,000
Waihapa Ngaere Licence	iii	Producing	22,000	22,000	10,000	54,000
			132,000	1,116,000	10,000	1,258,000

- i. Eltham (PEP51150): 2020 land remediation of Wairere-1A, 2021 evaluate and implement artificial lift.
- ii. Tariki: 2021 - implement project for gas recovery, drill well or sidetrack, and prepare updated field development plan.
- iii. Waihapa Ngaere: 2020 studies, 2022 updated field development plan.

16. SUBSEQUENT EVENTS

There have been no subsequent events.