Consolidated Financial Statements

Year Ended 31 December 2018

(Expressed in Canadian Dollars)

MANAGEMENT'S REPORT

Management of New Zealand Energy Corp. (the "Company") is responsible for the reliability and integrity of the consolidated financial statements, and the notes to the consolidated financial statements.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires management to make estimates and assumptions and use judgment. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

PricewaterhouseCoopers, an independent firm of Chartered Accountants, were appointed by shareholders as the external auditors of the Company to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. The Audit Committee recommends appointment of the external auditors to the Board, ensures their independence and approves their fees. The Audit Committee meets regularly with management and the external auditors to ensure management's responsibilities are properly discharged, to review the consolidated financial statements and recommend the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and their findings.

"Michael Adams"
Michael Adams, Chief Executive Officer

"*Derek Gardiner"*
Derek Gardiner, Chief Financial Officer

Independent auditors' report

To the Shareholders of New Zealand Energy Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of New Zealand Energy Corp. (the Company) and its subsidiaries (together, the Group) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2018 and 2017;
- the consolidated statement of comprehensive loss for the years ended December 31, 2018 and 2017;
- the consolidated statement of changes in equity as at December 31, 2018 and 2017;
- the consolidated statement of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company's ability to continue as a going concern is dependent upon its ability to expand the financial capacity of the Company. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Brown.

(SIGNED) "PricewaterhouseCoopers"

Chartered Accountants   Wellington, New Zealand
17 April 2019

CONSOLIDATED BALANCE SHEET
As at 31 December 2018 and 2017
(Expressed in Canadian Dollars)

	Notes	2018 $	2017 $
Assets			
Current			
Cash	4	1,237,019	55,351
Accounts and other receivables	5	2,140,170	2,057,649
Prepaid expenses		134,020	126,057
Inventories	6	790,181	700,392
Total current assets		**4,301,390**	2,939,449
Non-Current			
Accounts and other receivables	5	-	863,123
Inventories	6	586,381	788,048
Property, plant and equipment	7	14,595,173	16,567,342
Total non-current assets		**15,181,554**	18,218,513
Total assets		**19,482,944**	21,157,962
Liabilities			
Current			
Revolving credit facility	4	-	331,968
Accounts payable and accrued liabilities	10	2,654,826	2,598,792
Asset retirement obligation	9	392,250	-
Total current liabilities		**3,047,076**	2,930,760
Non-Current			
Asset retirement obligations	9	11,543,073	11,628,588
Accounts payable and accrued liabilities	10	-	863,123
Total non-current liabilities		11,543,073	12,491,711
Total liabilities		**14,590,149**	15,422,471
Shareholders' equity			
Share capital	11	109,738,706	109,738,706
Foreign currency translation reserve		12,182,274	12,052,627
Share based payments reserve		22,638,999	22,614,682
Accumulated deficit		(139,667,184)	(138,670,524)
Total shareholders' equity		**4,892,795**	5,735,491
Total liabilities and shareholders' equity		**19,482,944**	21,157,962

Description of business and going concern (Note 1)

These consolidated financial statements are authorized for issuance by the Board of Directors on 16 April 2019.

On behalf of the Board of Directors

"James Willis"
James Willis, Director

"Mark Dunphy"
Mark Dunphy, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December 2018 and 2017
(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 2017		232,123,459	109,738,706	21,216,759	1,349,289	12,435,010	(134,133,724)	10,606,040
Share based compensation	11(b)	-	-	48,634	-	-	-	48,634
Net loss for the period		-	-	-	-	-	(4,536,800)	(4,536,800)
Other comprehensive income for the period		-	-	-	-	(382,383)	-	(382,383)
Balance, 31 December 2017		**232,123,459**	**109,738,706**	**21,265,393**	**1,349,289**	**12,052,627**	**(138,670,524)**	**5,735,491**
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	11(b)	-	-	24,317	-	-	-	24,317
Net loss for the period		-	-	-	-	-	(996,660)	(996,660)
Other comprehensive income for the period		-	-	-	-	129,647	-	129,647
Balance, 31 December 2018		**232,123,459**	**109,738,706**	**21,289,710**	**1,349,289**	**12,182,274**	**(139,667,184)**	**4,892,795**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
For the years ended 31 December 2018 and 2017
(Expressed in Canadian Dollars)

	Notes	2018 $	2017 $
Revenues			
Revenue	12	12,624,824	8,923,492
Royalties		(362,430)	(245,215)
		12,262,394	8,678,277
Expenses and other items			
Production costs	13	1,517,803	1,333,487
Purchased oil	12	4,159,236	2,579,330
Processing costs		1,484,289	1,071,152
Depreciation and depletion	7	1,488,768	1,299,230
Impairment of plant and equipment, oil and gas properties	7	919,317	1,591,776
Share-based compensation	11(b)	24,317	48,634
General and administrative	14	3,397,455	3,768,717
Finance expense		365,009	413,858
Foreign exchange (gain)/loss		(16,244)	13,106
Inventory write-down	6	-	1,020,773
Loss on disposal of assets		-	37,719
Abandonment provision movement		(80,896)	37,295
		13,259,054	13,215,077
Net profit/(loss)		**(996,660)**	(4,536,800)
Other comprehensive income/(loss):			
Exchange difference on translation of foreign currency (i)		129,647	(382,383)
Total comprehensive profit/(loss)		**(867,013)**	(4,919,183)
Basic and diluted loss per share		$ (0.004)	$ (0.021)
Weighted average shares outstanding		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 consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December 2018 and 2017
(Expressed in Canadian Dollars)

	Notes	2018 $	2017 $
Operating activities			
Net loss for the period		(996,660)	(4,536,800)
Changes for non-cash operating items			
Share-based compensation		24,317	48,634
Depreciation, depletion and accretion		1,802,995	1,626,558
Abandonment provision movement		(80,896)	37,295
Foreign exchange loss		(16,244)	13,106
Inventory write-down		-	1,020,773
Loss on disposal of assets		-	37,719
Impairment		919,317	1,591,776
Change in non-cash working capital items			
Accounts and other receivables		844,466	(2,223,917)
Prepaid expenses		(4,606)	80,316
Inventories		147,698	18,012
Accounts payable and accrued liabilities		(889,563)	2,353,327
Cash provided by (used in) operating activities		**1,750,824**	66,799
Investing activities			
Proceeds from sale of property, plant and equipment		171,070	-
Purchase of property, plant and equipment		(446,790)	(40,030)
Cash provided by (used in) investing activities		**(275,720)**	(40,030)
Financing activities			
Revolving credit facility		(331,968)	(31,215)
Cash provided by (used in) financing activities		**(331,968)**	(31,215)
Net increase (decrease) in cash		**1,143,137**	(4,446)
Effect of exchange rate changes on cash		38,532	1,828
Cash, beginning of the period		55,351	57,969
Cash and equivalents, end of the period	4	**1,237,019**	55,351

	2018	2017
Supplemental cash-flow disclosures		
Changes in accounts payable related to property, plant & equipment	(4,387)	-
Cash interest paid	9,727	18,201

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 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 onshore Taranaki, 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 2018 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 year ended 31 December 2018, the Group reported a Net Loss of $996,660 (2017: $4,536,800) and a cash inflow from operating activities of $1,750,824 (2017: $66,799). As at 31 December 2018 the Group had working capital of $1,254,314 (2017: $8,689). The Group has several permit expenditure plans (Note 19) which are associated with the Group's interest in its oil and gas properties and exploration and evaluation assets.

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.

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 consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

These consolidated 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.

Basis of Consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries. Subsidiaries are all entities over which the Company is able to exercise control. Control exists when the Company has the power to direct the activities of an entity and is exposed to variable returns.

Also see Note 3 Joint Arrangements.

The subsidiaries of the Company are as follows:

Company	Location	Interest
NZEC Holdings Limited (previously NZEC Riverlea Limited)	New Zealand	100%
NZEC Management Limited	New Zealand	100%
Taranaki Ventures Limited	New Zealand	100%
East Coast Energy Ventures Limited	New Zealand	100%
ECEV II Limited	New Zealand	100%
ECEV III Limited	New Zealand	100%
Waihapa Production Services Limited	New Zealand	100%
Taranaki Ventures II Limited	New Zealand	100%
NZEC Tariki Limited	New Zealand	100%
NZEC Ahuroa Limited	New Zealand	100%
NZEC Waihapa Limited	New Zealand	100%
NZEC Stratford Limited	New Zealand	100%
NZEC Wairoa Limited	New Zealand	100%
NZEC Manaia Limited	New Zealand	100%

All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

Functional and presentation currency

Items included in the financial statements of each of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and reporting currency of the Company is the Canadian dollar.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities of the Company denominated in foreign currencies are translated to the functional currency at the exchange rate prevailing at the end of each reporting period. Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency and are translated using the exchange rate at the date of the transaction.

The functional currency of the Company's New Zealand subsidiaries and joint arrangements is the New Zealand dollar ("NZ$").

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each statement of comprehensive loss are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive income as exchange difference on translation of foreign currency.

Foreign exchange differences arising on monetary items that form part of the Company's net investment in foreign subsidiaries are initially recognized in other comprehensive income and reclassified from equity to the statement of comprehensive loss on disposal of the net investment.

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make certain estimates, judgements and assumptions.

The principal areas of judgement for the Company are found in the following notes:

Note 1 – Going concern
Note 6 - Inventories
Note 7 – Property, plant and equipment
Note 9 – Long term asset retirement obligations

Adoption of New or Revised IFRSs

There have been two new or revised accounting standards, interpretations or amendments effective during the year which have not had a material impact on the Company's accounting policies or disclosures.

IFRS 9 "Financial Instruments"

Effective 1 January 2018, NZEC adopted the July 2014 amendment to IFRS 9. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition.

The classification and measurement of the Group's financial assets and liabilities upon adoption of IFRS 9 is outlined below:

	IAS 39 Classification	IAS 39 Measurement	IFRS 9 Classification and Measurement
Financial Assets			
Cash and cash equivalents	Loans and receivables	Amortised cost	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost	Amortised cost
Loan to related parties	Loans and receivables	Amortised cost	Amortised cost
Financial Liabilities			
Trade and other payables	Other financial liabilities at amortised cost	Amortised cost	Amortised cost
Borrowings	Other financial liabilities at amortised cost	Amortised cost	Amortised cost
Loans	Other financial liabilities at amortised cost	Amortised cost	Amortised cost

The adoption of this amendment did not have a material impact on the valuation of the Company's financial assets. Comparative periods have not been restated as the Company has elected to apply the limited exemption on transition. As at 31 December 2018, the average expected credit loss of the Company's accounts receivable balance was not material. This is based on historic performance and forward-looking assessments of the counterparties. Additional required disclosures have been included in Note 22.

For the comparative year presented, prior to the adoption of IFRS 9, the previous accounting policy applied was:

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each period-end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. Objective evidence of impairment may include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

IFRS 15 "Revenue with Contracts from Customers"

Effective 1 January 2018, NZEC adopted IFRS 15 "Revenue with Contracts from Customers" using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognised on the date of initial application (1 January 2018) as an adjustment to retained earnings.

NZEC elected to use the following practical expedient:

- IFRS 15 was applied retrospectively to contracts that were not completed as of 1 January 2018;
- Judgement was used to group contracts into portfolios that have similar performance obligations and revenue recognition pattern outlined in the disaggregation of revenue in Note 12.

There were no other significant judgements or estimates used on adoption.

Under IFRS 15, the revenue from the sale of commodities and other operating revenue the company earns represent contractual arrangements with customers. Revenue from the sale of crude oil, purchased oil and condensate, and natural gas is measured based on the consideration specified in contracts with customers. NZEC recognizes revenue when control of the product transfers to the buyer and collection of the amount due to NZEC is probable. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the ship, pipeline or other transportation method agreed upon. Revenues from processing activities are recognized over time as processing occurs and are billed monthly.

The Company reviewed its contracts with customers for its material revenue streams, using the IFRS 15 five step model. There was no material impact on the consolidated financial statements and no transitional adjustment to retained earnings.

For the comparative year presented, prior to the adoption of IFRS 15, the previous accounting policy applied as follows:

Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer, which is at the delivery point. Revenue is measured at the fair value of the consideration received or receivable. Revenue is presented net of royalties.

Revenue from the sale of purchased oil and purchased condensate is recognized when the product is delivered, and title and significant risks of the product is transferred to the other party. Revenue from the sale of purchased oil and purchased condensate is measured at the gross amount net of any relevant fees paid or payable.

Processing revenue is recognized at the time the service has been rendered, provided the amount can be measured reliably and management has determined it is probable that economic benefit associated with the services will flow to the Group.

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Future IFRS Not Yet Effective

IFRS 16 "Leases"

IFRS 16 *Leases* ("IFRS 16") is effective for annual reporting periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. The Company has made a preliminary assessment of the impact of applying the new standard on the consolidated financial statements and has not identified any material differences from its current recognition practice. 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.

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.

3. JOINT ARRANGEMENTS

The consolidated financial statements include the Company's share of the assets, liabilities and cash flows of the joint arrangements, as they are accounted for as joint operations. The Company combines its share of the joint arrangements' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. Income taxes are recorded based on the Company's share of the joint arrangement's activities.

The Company accounts for the following joint arrangements.

Company	Principal activity	Location	Interest
TWN Limited Partnership	Operate the Waihapa Production Station	New Zealand	50%
NZEC Ngaere	General Partner of TWN Limited Partnership	New Zealand	50%
Tariki Joint Arrangement	Operate the Tariki license	New Zealand	50%
Waihapa-Ngaere Joint Arrangement	Operate the Waihapa and Ngaere licenses	New Zealand	50%

4. CASH AND CASH EQUIVALENTS AND REVOLVING CREDIT FACILITY

Cash is composed of cash on hand and deposits held at banks. Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

On 7 July 2016, NZEC subsidiary company Taranaki Ventures Limited (TVL) entered into an on demand revolving credit facility with the Bank of New Zealand, giving the Company the ability to draw down up to NZ$500,000. The interest rate at 31 December 2018 was 6.0% (2017: 5.94%). The facility is secured by way of a general security agreement over the present and after acquired assets of TVL with NZEC subsidiaries NZEC Holdings Limited, NZEC Management, NZEC Tariki Limited and NZEC Waihapa Limited guaranteeing the obligations of TVL under the facility.

	2018 $	2017 $
Cash and cash equivalents	1,237,019	55,351
Revolving credit facility	-	(331,968)

5. ACCOUNTS AND OTHER RECEIVABLES

NZEC's business model is to hold accounts receivable for collection. As a result, NZEC has classified its accounts receivable as amortized cost financial assets.

Receivables are recognized initially at fair value and subsequently measured at amortized cost.

NZEC applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 which permits the use of the lifetime expected loss provision for all trade receivables. Prior credit losses in the collection of accounts receivable by NZEC have been negligible and the Company does not anticipate any significant future credit losses based on forward looking information.

		2018 $	2017 $
Trade receivables		1,121,139	889,697
GST receivable		13,091	9,500
Financial receivable from related party	16	901,460	1,012,699
Other receivables		104,480	145,753
Total Current Accounts and other receivables		**2,140,170**	2,057,649
Non-Current Financial receivable from related party	16	**-**	**863,123**

6. INVENTORIES

Material and supply inventories consist of wellheads, and tubulars purchased for use in oil and gas operations and are valued at the lower of cost, or net realizable value (NRV). The costs of purchase of material and supply inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to their acquisition. Non-current inventories are not expected to be utilised within 1 year.

Oil inventories, as well as any unused purchased oil and condensate, are valued at the lower of the cost and net realizable value. Cost is composed of operating expenses that have been incurred in bringing inventories to their present location and condition, and the portion of depletion expense associated with oil and condensate production.

Cost is determined using the weighted average cost method. NRV is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

	2018 $	2017 $
Material and supplies	211,748	209,060
Oil inventories	578,433	491,332
	790,181	700,392
Non-current material and supplies	1,417,465	1,808,821
Less write down provision to NRV	(831,084)	(1,020,773)
	586,381	788,048

Write downs of materials and supplies to net realizable value of nil (2017: $1,020,773), and materials and supplies expensed during the period of $193,466 (2017: $59,595) were recognized as an expense during the year ended 31 December 2018 in the profit or loss. During 2018 the Company sold certain items of materials and supplies which partially utilised the NRV provision.

Key estimates and assumptions

The key estimates and assumptions in determining net realizable value for non-current materials and supplies include the following:

a) Each individual item within material and supplies was assessed for its likelihood to be used by the Company in its future work program, as detailed in Note 19. For those items considered unlikely to be used, they were then assessed for resale potential. For those items considered unlikely to be saleable, they were then valued at scrap value.
- Saleable value has been estimated at 50% of original cost based on the selling price of some items sold in 2018; and
- Scrap value has been estimated at 25% of original cost based on the current market pricing of scrapped tubulars.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) is carried at cost, less accumulated depreciation. The depreciable amount is the cost of the asset less its residual value. Depreciation ceases to be recognized when an asset's residual value exceeds its carrying amount. The Company reviews residual values, depreciation methods and useful lives at least annually. Any changes in estimates that arise from this review are accounted for prospectively.

Property, plant and equipment are depreciated over the estimated useful life of the assets using the straight -line method at the following rates per annum:

Furniture and fixtures	8.5% - 10.5%
Computer equipment	40%
Plant and equipment	5% - 8.5%
Land and building	7%

Oil and gas properties

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. These costs include proved property acquisitions, development drillings, completion of wells, gathering facilities and infrastructure, asset retirement costs, and transfers from exploration and evaluation assets where technical feasibility and commercial viability has been determined.

The net carrying value of oil and gas properties is depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production.

Impairment

Assets that are subject to depreciation and depletion are reviewed for impairment at each reporting date to determine whether there is any indication the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets, cash-generating units (CGU). For impairment loses identified the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in the profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, so the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss.

	Furniture and fixture	Land and building	Plant and equipment	Oil and gas properties	Total
	$	$	$	$	$
Cost					
Balance, 1 January 2017	420,050	1,428,706	8,156,187	24,787,326	34,792,269
Additions	-	-	62,724	-	62,724
Disposals	(78,471)	-	-	-	(78,471)
Impairment	-	-	(350,297)	(1,241,479)	(1,591,776)
Change in asset retirement cost due to change in estimate	-	-	695,332	337,566	1,032,898
Foreign currency translation adjustment	(10,255)	(71,702)	(424,603)	(1,217,581)	(1,724,141)
Balance, 31 December 2017	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**

	Furniture and fixture	Land and building	Plant and equipment	Oil and gas properties	Total
	$	$	$	$	$
Accumulated depreciation					
Balance, 1 January 2017	222,818	-	1,313,970	13,895,294	15,432,082
Depreciation and depletion	18,774	-	501,364	804,479	1,324,617
Disposals	(16,030)	-	-	-	(16,030)
Foreign currency translation adjustment	(10,755)	-	(81,496)	(722,257)	(814,508)
Balance, 31 December 2017	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**
Net Book Value					
Balance, 31 December 2017	116,517	1,357,004	6,405,505	8,688,316	16,567,342
Balance, 31 December 2018	**106,041**	**1,392,170**	**5,304,989**	**7,791,973**	**14,595,173**

At 31 December 2018, the Company assessed and concluded the carrying value of the TWN Assets CGU exceeded the recoverable amount resulting in an impairment of $919,317 (2017: Copper Moki CGU $1,241,479). The impairment was the result of lower reserve estimates and the assessment of future processing revenues. The recoverable amount was determined using a value in use calculation. The value in use was calculated using a discounted cash flow with the following key inputs: recoverable reserve forecasts based on the independent qualified reserves engineers forecasts as at 31 December 2018; a post tax discount rate of 12.5% (2017: 12.5%), and a pre-tax discount rate of 24.3% for Copper Moki and 14.7% for TWN Assets. For each of the CGUs cash flows have been forecasted for the economic expected life of the assets. For the TWN Assets CGU, the Company has also made judgments about the future operating revenue and expenses, reducing expenses to a level to commensurate with the Group's operations. The recoverable amount of the Copper Moki CGU is approximately $3.1 million (2017: $3.0 million) and the TWN Assets $10.2 million (2017: $12.6 million).

The recoverable amount of PP&E is sensitive to the discount rate, forecast future commodity prices and overall plant usage. If the post tax discount rate applied to forecasted net cash flows increased by 5 percent, the Company would have recognized

additional impairment of approximately $2.5 million in the TWN Assets CGU only. A 5 percent reduction in forecast commodity prices would result in additional impairment of approximately $1.0 million in the TWN Assets CGU.

Key estimates and assumptions

Oil and gas reserve determination
The process of estimating reserves (using independent qualified reserves engineers) requires significant estimates based on available geological, geophysical, engineering and economic data. The estimate of the economically recoverable oil and natural gas reserves and related future net cash flows incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs. Future development costs are estimated using assumptions as to the number of wells required to produce the reserves, the cost of such wells and associated production facilities, and other capital costs.

Determination of cash-generating units ("CGUs")
Oil and gas properties, resources properties and other corporate assets are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of these CGUs was based on management's judgement in regard to similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks, and materiality. The Company has two identified CGUs (both located in onshore Taranaki, New Zealand):

a) Copper Moki, and
b) Tariki, Waihapa and Ngaere licences and Waihapa Production Station (TWN Assets).

Impairment indicators and calculation of impairment
The recoverability of producing asset carrying values is assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein. At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility the carrying values of its CGUs are not recoverable or are impaired.

In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs of disposal, and value in use. In estimating the recoverable amount, the Company uses the net present value of future cash flows from oil and gas reserves of each CGU with reference to the reserves estimates carried out by the Company's independent qualified reserves engineers.

Key input judgements and estimates used in the determination of cash flows from oil and gas reserves and processing revenues include the following:

a) Reserves – assumptions that are valued at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Oil and natural gas prices – forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Processing revenues – based on expected future cashflows which may vary significantly depending on the ongoing processing and other service requirements of existing customers, cost and economics associated with providing those services and the recovery of own oil and gas in utilising the shared infrastructure.

d) Expenses – future operating expenses will change commensurate with the level of activities and the economics of continuing operation. Changes in and the associated cost of meeting safety standards, manning levels and alternative ways of working, the impact of technology and extent of technical and commercial support may vary significantly.

e) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

8. EXPLORATION AND EVALUATION ASSETS

The Company uses the successful efforts method of accounting for oil and gas exploration costs. All general exploration and evaluation costs are expensed as incurred except the direct costs of acquiring the rights to explore, drilling exploratory wells and evaluating the results of drilling. These direct costs are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest the carrying amount exceeds the recoverable amount. Exploration and evaluation assets can be allocated to CGUs or groups of CGUs for the purposes of assessing such assets for impairment. At 31 December 2018 exploration and evaluation assets were nil and therefore not allocated to CGUs.

9. ASSET RETIREMENT OBLIGATIONS

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-lived assets in the period when the liability arises. The net present value of the asset retirement obligation (discounted to its present value using an appropriate discount rate) is capitalized to the long-lived asset to which it relates with a corresponding increase to the liability in the period incurred.

Changes in the liability for an asset retirement obligation due to the passage of time are recognized in the profit or loss as an accretion expense (within finance expense), and an increase in the liability in the balance sheet.

Changes resulting from revisions to the timing, discount rates, regulatory requirements or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company's estimates are reviewed at the end of each reporting period for such changes.

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. 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.

Non-Current	**2018** **$**	**2017** **$**
Opening Balance 1 January	11,628,587	10,849,429
Change in estimate	(286,352)	1,066,407
Accretion expense for the year	291,637	301,942
Reclassified as current	(392,250)	-
Foreign currency translation adjustment	301,451	(589,190)
Closing Balance 31 December	**11,543,073**	**11,628,588**
Current	**392,250**	**-**

Assumptions		
Total undiscounted value of payments	$22,645,310	$17,171,927
Discount rate	1.74% to 2.45%	1.8% to 2.76%
Inflation rate	2%	2%
Expected life	1 to 37 years	1 to 20 years

Key estimates and assumptions

The calculation of asset retirement obligations includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, the risk-free discount rate and the future inflation rates. The impact of differences between actual and estimated costs, timing, economic life, and inflation on the consolidated financial statements of future periods may be material.

During the year the Company has revised its estimate of the expected life of assets and the period in which abandonment costs are expected to incur. The expected useful lives have bene estimated as follows:

- Producing wells – though the end of the economic life (per the assumptions used for impairment assessment);
- Non-producing wells – through the end of the permit period unless the Company intends to take remedial actions earlier.

The impact of this change in estimate was to reduce the provision by $413,000.

The provision is sensitive to movements in the above assumptions as follows:

Assumption	Change	Impact on Provision
Undiscounted value of payments	10%	+$1,193,000
Discount rate	+0.1%	($278,000)
Life	+1 year	($39,000)
Life	-1 year	+$40,000

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2018 $	2017 $
Trade payables		1,195,353	1,064,358
GST payable		142,768	119,413
Financial payables	16	901,460	1,012,699
Accrued liabilities - payroll		415,245	402,322
Total Current Accounts payable and accrued liabilities		2,654,826	2,598,792
Non-current financial payable	16	-	863,123

11. SHARE CAPITAL

a) Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity.

Common shares issued for non-monetary consideration are recorded at their fair value on the measurement date. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty's performance is complete.

The Company has an unlimited number of common shares without par value authorized for issuance.

b) Share purchase options (equity settled)

The share option plan allows the Company's employees and consultants to acquire shares of the Company at a specified exercise price. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity over the vesting period of the options. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee received the goods or the services.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options or warrants vest. The fair value of the options and warrants granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options or warrants were granted. The amount of share based compensation or warrant recognized during a period is based on the best available estimate of the number of options or warrants that are expected to vest. On the vesting date the Company revises the estimate to equal the number of options that are ultimately vested.

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 December 2018. 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.

	2018		2017	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding at 1 January	10,815,200	0.08	12,284,200	0.12
Granted	-	-	-	-
Expired	(105,200)	0.45	(1,469,000)	0.45
Forfeited	(144,000)	0.45	-	-
Total Outstanding 31 December	**10,566,000**	**0.07**	**10,815,200**	**0.08**

Options outstanding and exercisable		2018		2017	
	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	1.50	10,000,000	2.50
Options outstanding	0.45	566,000	0.39	815,200	1.16
Total options outstanding		10,566,000	1.44	10,815,200	2.40
Options exercisable	0.05	10,000,000	1.50	-	-
Options exercisable	0.45	566,000	0.39	815,200	1.16
Total options exercisable		10,566,000	1.44	815,200	1.16

Options expense and assumptions	**2018**	**2017**
Expense	$24,317	$48,634
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 2018 or 2017. As at 31 December, Officers held 10,220,000 (2017: 10,220,000) outstanding and exercisable options.

Assumptions

Option pricing models require the input of subjective assumptions including the expected price volatility and expected option life. Management has calculated expected price volatility using historical share price data of the Company. Changes in these assumptions may have a significant impact on the fair value calculation.

c) Warrants (equity settled)

Warrants that have been issued by the Company are measured at fair value at the issue date. This value is recognized as an expense with a corresponding increase in equity.

The fair value of warrants is measured as for options as discussed above.

Warrants activity	2018		2017	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Outstanding at 1 January	41,452,178	0.29	41,452,178	0.29
Expired	(41,452,178)	0.29		
Total Outstanding 31 December	-	-	41,452,178	0.29

Warrants outstanding and exercisable		2018		2017	
	Exercise price $	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
Warrants outstanding and exercisable	0.07	-	-	17,000,000	0.96
Warrants outstanding and exercisable	0.45	-	-	24,452,178	0.83
Total outstanding and exercisable		-	-	41,452,178	0.88

12. REVENUE

The Revenue accounting policy is detailed in Note 2, Adoption of New or Revised IFRSs, *IFRS 15 “Revenue with Contracts from Customers”.*

	Note	2018 $	2017 $
Oil sales		5,421,323	3,174,677
Gas sales		120,224	148,460
Processing revenue		2,701,048	2,461,946
Interest income		63,996	93,716
Other revenue		158,997	304,101
		8,465,588	6,182,900
Purchased oil sold	a)	4,159,236	2,579,330
Other income		-	161,262
Total Revenue		**12,624,824**	8,923,492

a) 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.

13. PRODUCTION COSTS

Production costs incurred by the Company include the transportation, day-to-day servicing of the production facilities and other costs directly relating to the revenue recognized from the oil and gas or purchased oil and condensate. Costs paid by the Company for the transportation of oil, natural gas and condensate from the wellhead to the point of title transfer are recognized when the transportation is provided.

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 $	2017 $
Professional fees	175,293	167,799
Consulting fees	116,654	76,015
Travel and promotion	58,049	34,718
Administrative expenses	281,148	373,619
Rent	54,647	111,975
Filing and transfer agent fees	25,027	27,407
Insurance	191,545	188,976
Salary and wages	2,495,092	2,788,208
	3,397,455	3,768,717

15. INCOME TAXES

Any income tax on profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the profit or loss based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realised or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the profit or loss in the period substantive enactment occurs.

A deferred tax asset is recognized to the extent it is probable future taxable profits will be available in the foreseeable future against which the asset can be used. To the extent the Company does not consider it probable a deferred tax asset will be recovered, the deferred tax asset is reduced.

A reconciliation of the income tax benefit determined by applying the Canadian income tax rates to the consolidated loss for the years ended 31 December 2018 and 2017 has been prepared as follows:

	2018 $	2017 $
Loss before income taxes	996,660	4,536,800
Statutory tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	(259,132)	(1,179,568)
Effect of tax rates in other jurisdictions	(17,574)	(88,995)
Effect of changes in foreign exchange rates	(41,088)	107,067
Adjustment to return	(10,765)	42,737
Tax on royalty agreement transaction (See Note 16 (i))	-	903,070
Tax losses not recognised	328,559	215,689
	-	-

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	2018 $	2017 $
Deferred income tax assets		
Employee benefits	116,269	112,649
Non-capital losses available for future periods	30,502,007	29,085,463
Environmental liabilities	3,341,890	3,256,005
Share issue costs	1,675	4,000
Resources property	-	769,773
	33,961,841	33,227,890
Unrecognized deferred tax assets	(32,919,210)	(32,044,015)
Deferred tax assets	1,042,631	1,183,875
Deferred income tax liability		
Inventory	(2,698)	(52,056)
Property, plant and equipment	(594,894)	(1,131,819)
Resources property	(445,039)	-
	(1,042,631)	(1,183,875)
Net deferred income tax asset*	-	-

*The net amount charged to the profit or loss is $nil (2017: $nil).

The above losses available for future years have been determined by applying a Canadian income tax rate of 26% (2017: 26%) and a New Zealand tax rate of 28% (2017: 28%). These tax benefits have not been recognized in the profit or loss as the benefits are unlikely to be realized in the foreseeable future.

The Company has operating losses available in Canada to reduce future taxable income of $17,528,361 (2017: $17,401,720), which will expire between 2030 and 2037. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ$108,133,176 (2017: NZ$102,844,426).

16. 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, and Greymouth Gas Taranaki Ltd. The following transactions and balances with these related parties are:

	Note	2018 $	2017 $
Processing revenue		319,828	361,472
Production costs		498,652	207,456
Trade receivables		30,018	32,582
Trade payables		110,523	122,813
Oil & Gas properties expenditure		200,422	-
Proceeds from disposal of PPE		171,070	-
Total settlement for royalty discharge	i)	-	3,275,895
Current financial receivable	i)	901,460	1,012,699
Non-current financial receivable	i)	-	863,123

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 10) and receipt from the related party (Note 5) is spread over 2 years, with future payments and receipts secured by back to back bank guarantees.

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:

	Twelve months ended 31 December	
	2018	**2017**
	$	**$**
Salary and consulting fees	935,556	1,011,712
Share based compensation	24,317	48,634
	959,873	1,060,346
Included in the above amounts are:		
Upstream Consulting Ltd (James Willis)	32,286	33,175
Arenig Energy Ltd (David Llewellyn)	26,008	-
Michael Adams Reservoir Engineering Ltd (Michael Adams)	410,852	434,290

17. 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.

18. COMMITMENTS

As at 31 December 2018, the Company had the following undiscounted contractual obligations:

	2019	**2020 to 2021**	**2022 and onwards**	**Total**
	$	**$**	**$**	**$**
Operating lease obligations	19,000	11,000	-	30,000
Contract and purchase commitments*	656,000	481,000	236,000	1,373,000
	675,000	**492,000**	**236,000**	**1,403,000**

*Contract commitments (2019) includes $310,000 for the enhanced oil recovery project. Expenditure to date is included in Note 7 (Property, Plant and Equipment). Total anticipated cost is also disclosed in the Permit Expenditure Plans for Waihapa Ngaere Licence (see Note 19).

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).

Taranaki Ventures Ltd (TVL), a subsidiary of the Company, has bank guarantees in place to ensure its performance in paying its future obligations of: Financial Payable due 29 March 2019, NZ$1,000,000 (Note 10).

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.

19. 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 Company 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	i	Exploration	-	-	-	-
Tariki Licence	ii	Producing	54,000	994,000	-	1,048,000
Waihapa Ngaere Licence	iii	Producing	365,000	23,000	33,000	421,000
			419,000	**1,017,000**	**33,000**	**1,469,000**

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.

20. FINANCIAL INSTRUMENTS BY CATEGORY

The classification and measurement of the Group's financial assets and liabilities is detailed in Note 2, Adoption of New or Revised IFRSs, *IFRS 9 "Financial Instruments":*

	2018	2017
	$	$
Financial assets at amortised cost – cash, receivables, loans	3,377,189	2,113,000
Financial assets – cash, receivables, loans	-	863,123
Financial liabilities – at amortised cost – borrowings, payables, loans	2,654,826	2,930,760
Financial liabilities – borrowings, payables, loans	-	863,123

Financial assets

Cash, trade and other receivables and loans are classified as financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Financial assets are recognized at the amount expected to be received less any discount or rebate to reduce the loan and receivables to estimated fair value. Loans and receivables are subsequently measured at amortized cost.

The fair values of all financial assets are considered to be the same as their carrying amounts. For current receivables, this is due to their short-term nature, and for non-current financial assets, they have been discounted as described above.

All financial assets are classified as level 2 per the fair value hierarchy levels.

Financial liabilities

Accounts payable, accrued liabilities and operating line of credit are classified as other financial liabilities and are initially recognized at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the profit or loss over the period to maturity using the effective interest method.

The fair values of all financial liabilities are considered to be the same as their carrying amounts. For current payables, this is due to their short-term nature, and for non-current financial liabilities, they have been discounted as described above.

Impairment of financial assets

NZEC applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 Financial Instruments ("IFRS 9") which permits the use of the lifetime expected loss provision for all trade receivables carried at amortized cost.

At each reporting date, the Company measures the lifetime expected loss provision taking into consideration NZEC's historical credit loss experience as well as forward-looking information in order to establish loss rates. The impairment loss (or reversal) is the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

21. CAPITAL RISK MANAGEMENT

The Company's capital includes share capital, shares subscribed, and the cumulative deficit. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages its capital structure and adjusts for changes in economic conditions and the risk characteristics of the underlying assets. The Company's short-term operating budgets and capital budgets are reviewed and updated annually and as necessary depending on various factors, including successful capital deployment. The Company may issue new shares, issue new debt or dispose of interests in assets in order to meet its financial obligations.

22. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, foreign exchange risk, interest rate risk, price risk and fair value risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. This note presents information about the Company's exposure to each of these risks, the Company's objectives and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and trade receivables.

Cash consists of cash deposits that are held with a registered New Zealand bank.

All the Company's oil production and purchased oil and condensate is sold directly to a major oil company with payment due 30 days after lifting. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition, as assessed by their published investment grade credit rating. Natural gas sales and processing services delivered are invoiced monthly and due for payment on the 20th of the month following. The Company has assessed the risk of non-collection from the individual customers as low to medium based on published credit ratings, knowledge of substantial New Zealand based operations and previous payment history.

NZEC applies the simplified approach to providing for expected credit losses as detailed in Note 5.

Trade receivables reported in the Company's balance sheet are aged at or under 30 days. The financial receivable from a related party is secured by a bank guarantee. The Company monitors the exposure to any single counterparty along with its financial position through general industry knowledge, timeliness of payment of amounts due and periodic confirmation of credit rating. If it is deemed that a counterparty has become materially weaker, the Company will work to reduce the credit exposure to that counterparty.

The carrying value of the Company's cash, and trade receivables represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at either 31 December 2018 or 2017.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its capital commitments, and other financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon maintaining its current working capital balances, operating cash flows and ability to raise funds. To forecast and monitor liquidity the Company prepares operating and capital expenditure budgets which are monitored and updated as considered necessary.

At 31 December 2018, the Company had $nil drawn in a revolving credit facility (2017: $331,968 drawdown), $1,237,019 in cash (2017: $55,351) and $1,254,314 in working capital (2017: $8,689). As disclosed in Note 19, the Company has various ongoing permit expenditure plans which are associated with the Company's interest in its exploration and evaluation assets. To the

extent the Company elects not to carry out the permit expenditure plans pertaining to a specific permit, the Company stands to forfeit its interest in the relevant permit.

Management has estimated the Company has sufficient working capital to meet short-term operating and development requirements. However, in light of the reliance on ongoing efforts to increase financial capacity and successful completion of development activities, there is significant doubt about the Company's ability to continue as a going concern. Refer Note 1, Going Concern.

The following are the expected undiscounted maturities of financial liabilities and obligations at 31 December 2018:

	Less than 1 year	**2 to 5 years**	**Thereafter**	**Total**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	2,654,826	-	-	2,654,826

See also: Asset Retirement Obligations (Note 9) and Guarantees (Note 18).

Foreign Exchange Risk

The Company operates in New Zealand only. All of the Company's petroleum sales are denominated in United States dollars, while gas sales and processing revenues are New Zealand dollar denominated. Operational and capital activities related to our properties are transacted primarily in New Zealand dollars and/or United States dollars with some costs also being incurred in Canadian dollars. Foreign exchange risk arises when the future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Company currently does not have significant exposure to other currencies and this is not expected to change in the foreseeable future as the work commitments in New Zealand are expected to be carried out in New Zealand dollars and to a lesser extent, in United States dollars. All US dollar revenues are converted to NZ dollars in the spot market.

The sensitivity of profit or loss to changes in the USD/NZD exchange rate of an increase in the rate by 10% is a loss of $492,848 (2017: $288,607), and a decrease in the rate of 10% is a gain of $602,369 (2017: $352,742).

Interest Rate Risk

Interest rate risk is the risk future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and cash equivalents that bear a variable rate of interest. The risk is not considered significant.

The Company did not have any interest rate swaps or financial contracts with variable interest rates in place during the period ended 31 December 2018 and any variations in interest rates would not have materially affected net income.

Price Risk

The Company is exposed to price movements as part of its operations in relation to the prices received for its oil production. Such prices may also affect the value of resources properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by numerous factors, including, but not limited to, industrial and retail demand, levels of worldwide production, short-term changes in supply and demand related to speculative activities, forward sales by producers and speculators, and other factors. The Company's oil production is priced based on an agreed contract price marker based on spot prices, exposing the Company to the risk of price movements. The Company has not entered into any hedge instruments.

Fair Value

Financial instruments recognized at fair value on the consolidated balance sheets must be classified into one of the three following fair value hierarchy levels:

Level 1	Measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.	Shares, options and warrants
Level 2	Measurement based on inputs other than quoted prices included in Level 1 that are observable for the assets or liability.	Financial assets and liabilities
Level 3	Measurement based on inputs that are not observable (supported by little or no market activity) for the assets or liability.	

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23. SUBSEQUENT EVENTS

There have been no subsequent events.