Consolidated Financial Statements

Year Ended 31 December 2019

(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

"*Jenny Wells"*
Jenny Wells, Chief Financial Officer

Independent auditor's 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2019 and 2018;
- the consolidated statement of changes in equity for the years then ended;
- the consolidated statement of comprehensive income for the years then ended;
- the consolidated statement of cash flows for the years then ended; 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 Company 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.

Emphasis of matter - Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements. The Group has incurred a net loss of $1.6 million for the year ended December 31, 2019, and at balance date has available cash of $1.5 million. The Group forecasts that it has sufficient cash to continue to fund operations for a 12 month period from the date the financial statements are authorised. Note 1 describes the assumptions made by the Group and indicates that the Group's ability to continue as a going concern is dependent upon the Group's ability to generate budgeted cash flows from operations which are reliant on achieving planned production levels and forecast oil prices, and the continued availability of funding facilities. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Emphasis of matter - Impairment testing of property, plant and equipment

We draw attention to Note 7 in the consolidated financial statements. The Group has property, plant and equipment assets of $13.2 million as at December 31, 2019. The Group identified indicators of impairment related to these assets and performed an impairment assessment as at December 31, 2019. The Directors concluded that the carrying value of the assets were supported by the fair value of the Group less costs of disposal. The Directors exercised significant judgement in respect to this assessment, specifically in respect to the use of market capitalisation as a basis for determining fair value. Note 7 to the financial statements discloses the key assumptions and judgements made by the Group. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, Management's Report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 when it becomes available 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.

When we read the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 Company'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 Company 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.

PricewaterhouseCoopers

Chartered Accountants
7 August 2020

Wellington, New Zealand

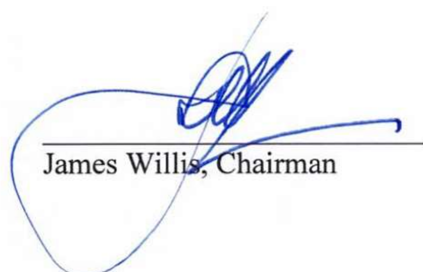
CONSOLIDATED BALANCE SHEET
As at 31 December 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019 $	2018 $
Assets			
Current			
Cash	4	1,474,809	1,237,019
Accounts and other receivables	5	748,525	2,140,170
Prepaid expenses		196,510	134,020
Inventories	6	767,146	790,181
Total current assets		**3,186,990**	4,301,390
Non-Current			
Inventories	6	463,749	586,381
Property, plant and equipment	7	13,198,851	14,595,173
Total non-current assets		**13,662,600**	15,181,554
Total assets		**16,849,590**	19,482,944
Liabilities			
Current			
Accounts payable and accrued liabilities	10	1,448,861	2,654,826
Asset retirement obligation	9	627,350	392,250
Total current liabilities		**2,076,211**	3,047,076
Non-Current			
Asset retirement obligations	9	11,703,515	11,543,073
Total liabilities		**13,779,726**	14,590,149
Shareholders' equity			
Share capital	11	109,738,706	109,738,706
Accumulated deficit		(106,668,842)	(104,845,911)
Total shareholders' equity		**3,069,864**	4,892,795
Total liabilities and shareholders' equity		**16,849,590**	19,482,944

Description of business and going concern (Note 1)

These consolidated financial statements are authorized for issuance by the Board of Directors on 7 August 2020.

On behalf of the Board of Directors



James Willis, Chairman

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December 2019 and 2018
(Expressed in Canadian Dollars)

	Note	Number of shares	Share Capital	Share based payments reserve (options)	Share based payments reserve (warrants)	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance, 1 January 2018		232,123,459	109,738,706	21,265,393	1,349,289	12,052,627	(138,670,524)	5,735,491
Share based compensation	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
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		-	-	-	-	-	(1,624,881)	(1,624,881)
Other comprehensive income for the period		-	-	-	-	(198,050)	-	(198,050)
Balance, 31 December 2019		**232,123,459**	**109,738,706**	**21,289,710**	**1,349,289**	**11,984,224**	**(141,292,065)**	**3,069,864**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended 31 December 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019 $	2018 $
Revenues			
Revenue	12	9,917,943	12,624,824
Royalties		(254,039)	(362,430)
		9,663,904	12,262,394
Expenses and other items			
Production costs	13	1,686,973	1,517,803
Purchased oil	12	2,457,901	4,159,236
Processing costs		1,433,082	1,484,289
Depreciation and depletion	7	1,335,262	1,488,768
Impairment of plant and equipment, oil and gas properties	7	-	919,317
Share-based compensation	11(b)	-	24,317
General and administrative	14	3,489,327	3,397,455
Finance expense		248,721	365,009
Foreign exchange (gain)/loss		15,445	(16,244)
Inventory write-down	6	89,380	-
Loss on disposal of assets		(600)	-
Abandonment provision movement		533,294	(80,896)
		11,288,785	13,259,054
Net loss		**(1,624,881)**	(996,660)
Other comprehensive loss:			
Exchange difference on translation of foreign currency (i)		(198,050)	129,647
Total comprehensive loss		**(1,822,931)**	(867,013)
Basic and diluted loss per share		$ (0.007)	$ (0.004)
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.

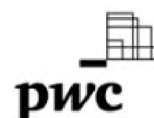
See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019 $	2018 $
Operating activities			
Net loss for the period		(1,624,881)	(996,660)
Changes for non-cash operating items			
Share-based compensation		-	24,317
Depreciation and depletion		1,358,805	1,511,349
Accretion		236,228	291,646
Abandonment provision movement		533,294	(80,896)
Foreign exchange loss		15,445	(16,244)
Impairment		-	919,317
Change in non-cash working capital items			
Accounts and other receivables		1,391,645	844,466
Prepaid expenses		(62,490)	(4,606)
Inventories		145,668	147,698
Accounts payable and accrued liabilities		(1,205,963)	(889,563)
Cash provided by (used in) operating activities		**787,751**	1,750,824
Investing activities			
Proceeds from sale of property, plant and equipment		166,124	171,070
Purchase of oil and gas properties		(356,094)	(31,187)
Purchase of property, plant and equipment		(259,342)	(415,603)
Cash provided by (used in) investing activities		**(449,312)**	(275,720)
Financing activities			
Revolving credit facility		-	(331,968)
Cash provided by (used in) financing activities		**-**	(331,968)
Net increase (decrease) in cash		**338,439**	1,143,137
Effect of exchange rate changes on cash		(100,649)	38,532
Cash, beginning of the period		1,237,019	55,351
Cash and equivalents, end of the period	4	**1,474,809**	1,237,019

	2019	2018
Supplemental cash-flow disclosures		
Changes in accounts payable related to property, plant & equipment	3,937	(4,387)
Cash interest paid	12,458	9,727
Cash interest received	18,501	405

See accompanying notes to the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019
(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 year ended 31 December 2019, the Group reported a Net Loss of $1,624,881 (2018: $996,660) and a cash inflow from operating activities of $787,751 (2018: $1,750,824). The Group has working capital (total current assets, less total current liabilities) of $1,110,779 (2018: $1,254,314). In addition, the Group also 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 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 (Note 4).

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 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 presentation currency of the Group is the Canadian dollar.

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

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 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 income 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 income 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 Group 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

Financial Instruments

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

	IFRS 9 Classification and Measurement
Financial Assets	
Cash and cash equivalents	Amortised cost
Trade and other receivables	Amortised cost
Loan to related parties	Amortised cost
Financial Liabilities	
Trade and other payables	Amortised cost
Borrowings	Amortised cost
Loans	Amortised cost

As at 31 December 2019, the average expected credit loss of the Group'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 19.

Adoption of New or Revised IFRSs

There has been one new or revised accounting standard, IFRS 16 "Leases", interpretation or amendment effective during the year which has not had a material impact on the Group's accounting policies or disclosures. All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the Group or are not expected to have a material impact on the Group's consolidated financial statements and therefore have not been discussed.

IFRS 16 "Leases"

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

On adoption of IFRS 16, NZEC did not identify any material differences from its current recognition practice and no adoption adjustments were made. This is principally due to the short-term duration and low value assets of less than NZD $7,000 (USD$5,000), of the majority of the Group's leases and the exclusion of leases to explore for or use hydrocarbons from the scope of IFRS 16. In applying IFRS 16 for the first time, NZEC has used the following practical expedients permitted by the standard:

- the accounting for leases with a remaining lease term of less than 12 months as at 1 January 2019 are short-term leases. These leases are for vehicles and have been recognized directly as an expense of $11,944; and
- the accounting for lease payments as an expense and not recognise a right-of-use asset if the underlying asset is of low dollar value. These leases are for photocopiers and other machinery and have been recognized directly as an expense of $13,039.

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

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

In determining the impact as immaterial management has made judgments, estimates, and assumptions related to the application of IFRS 16. The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.

3. JOINT ARRANGEMENTS

The consolidated financial statements include the Group's share of the assets, liabilities and cash flows of the joint arrangements, as they are accounted for as joint operations. The Group 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 Group's financial statements. Income taxes are recorded based on the Group's share of the joint arrangement's activities.

The Group 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 2019 was 5.5% (2018: 6.0%). 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.

	2019 $	2018 $
Cash and cash equivalents	1,474,809	1,237,019

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 Group does not anticipate any significant future credit losses based on forward looking information. Hence, the average expected credit loss of the Group's accounts receivable balance was not material. See also Note 22.

		2019 $	2018 $
Trade receivables		747,878	1,121,139
GST receivable		647	13,091
Financial receivable from related party	16	-	901,460
Other receivables		-	104,480
Total Current Accounts and other receivables		**748,525**	2,140,170

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.

	2019	2018
Current	**$**	**$**
Material and supplies	201,087	211,748
Oil inventories	566,059	578,433
	767,146	790,181
Non Current		
Non-current material and supplies	1,353,100	1,417,465
Less write down provision to NRV	(889,351)	(831,084)
	463,749	586,381
Write down Provision to NRV non-current material and supplies		
Opening Balance	(831,084)	(1,020,773)
Movement in provision recognised as expense	(89,380)	-
Provision reversed on material and supplies sold	31,113	183,689
Closing Balance	(889,351)	(831,084)

Write downs of materials and supplies to net realizable value of $89,380 (2018: $nil) were recognized as an expense. In addition, the Group used materials and supplies of $43,913 (2018: $193,466) and recognized them as an expense. Write downs of oil inventories of $175,363 (2018: nil) to net realizable value was recognized as an expense.

Key estimates and assumptions

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

Each individual item within material and supplies was assessed for its likelihood to be used by the Group in its future work program, as detailed in Note 19. Those items considered unlikely to be used, were all considered as unlikely to be saleable, were valued at scrap value. Scrap value has been estimated at 23% (2018:25%) of original cost based on the current market pricing of scrapped steel.

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 Group reviews residual values, depreciation methods and useful lives at least annually. Any changes in estimates that arise from this review are accounted for prospectively.

PP&E is 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%
Buildings	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). Impairment is allocated on a pro rata basis to the assets within the CGU. The impairment is recognized as an expense in profit or loss.

Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. Hence 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 is recognized immediately in profit or loss.

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Cost					
Balance, 1 January 2018	331,324	1,357,004	8,139,343	22,665,832	32,493,503
Additions	-	-	31,187	423,402	454,589
Disposals	-	-	(171,070)	-	(171,070)
Impairment	-	-	(441,580)	(477,737)	(919,317)
Change in asset retirement cost due to change in estimate	-	-	(233,215)	27,757	(205,458)
Foreign currency translation adjustment	7,242	35,166	196,940	583,045	822,393
Balance, 31 December 2018	338,566	1,392,170	7,521,605	23,222,299	32,474,640
Additions	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**

	Furniture and fixture	Land and building	Plant and equipment	Oil and gas properties	Total
	$	$	$	$	$
Accumulated depreciation					
Balance, 1 January 2018	214,807	-	1,733,838	13,977,516	15,926,161
Depreciation and depletion	12,015	-	429,470	1,069,874	1,511,359
Disposals	-	-	-	-	-
Foreign currency translation adjustment	5,703	-	53,308	382,936	441,947
Balance, 31 December 2018	232,525	-	2,216,616	15,430,326	17,879,467
Depreciation and depletion	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**
Net Book Value					
Balance, 31 December 2018	106,041	1,392,170	5,304,989	7,791,973	14,595,173
Balance, 31 December 2019	**94,171**	**1,339,041**	**3,703,188**	**8,062,450**	**13,198,851**

The Director's identified indicators of impairment in relation to the Group assets. As a result, the Group undertook an impairment test. The judgements made by the Directors in undertaking this impairment test are detailed below.

The determination of the Group's cash generating units (CGUs) for impairment testing purposes is a significant judgement. For the 31 December 2018 financial year, the Group assessed that it had two cash generating units, TWN Assets and Copper Moki. At 31 December 2019, the Group reassessed the determination of CGUs, giving particular consideration to the level of inter-dependency of the TWN Assets CGU and the Copper Moki CGU. The Group has made changes to the flow and processing of hydrocarbons and the way in which the assets are managed. These changes have resulted in the assets being integrated and more inter-dependent than previously. As a consequence, the Group has concluded that the two assets are to be treated as one CGU. Specifically, hydrocarbons produced from Copper Moki (including gas and liquid hydrocarbons) are now transported to TWN for either use as fuel or sale (in the case of gas) and blending (in the case of liquids) with hydrocarbons from company and third party sources to achieve the sales specification required by the Group's shared customer for the products. The alternative to blending at TWN that would enable Copper Moki oil to be sold separately would involve chemical treatments that would render production uneconomic. Additionally, water separated and treated at TWN is transported to Copper Moki for injection into the reservoir. This water injection supports enhanced oil recovery at Copper Moki and enables the TWN Assets to continue to offer water treatment services to third parties.

In the comparative year, the Group determined that it had two CGU's, TWN and Copper Moki. As noted above, the Group determined that for the current financial year it had one CGU. Given the significance of this change in assessment, the Group considered whether impairment would be required if the Group has assessed that the determination of CGUs was consistent with previous years. The Group determined that the impairment conclusion would be unchanged.

In assessing the recoverable amount of the Group's assets, the Directors considered the value in use of the assets to the operations. Due to restrictions on including post balance date events, such as cost reduction initiatives (refer note 23), within the value in use assessment the value in use of the CGU was lower than the fair value less costs of disposal (FVLCD). The Director's considered alternative FVLCD valuation methodologies, including the use of the income approach. Due to similar difficulties encountered with the value in use assessment this approach was not considered appropriate. As a result, the Directors, in conjunction with advice received from their independent valuation expert, determined that a market approach based on market capitalisation was the most appropriate valuation approach.

The recoverable amount was determined using a Fair Value Less Costs of Disposal (FVLCD) calculation. The Director's used an independent valuation expert to assist them to determine an appropriate approach to assessing FVLCD. The determination of FVLCD was performed with reference to the value which the market places on the Group plus an assessed control premium (Level 2 of the fair value hierarchy). The Group reviewed trades that occurred before balance date that accounted for 0.8% of the Group's issued shares. These share trades had a spread of prices between $0.01 and $0.015. These trades were considered sufficient to represent transactions of a fully informed market participant. A volume weighted average market price of $0.0127 was determined. The Group then applied a premium for obtaining control of the entity of 25%. This premium was based on market research in addition to utilising the expertise and experience of management's valuation expert. No costs of disposal were assumed. This recognises the listed nature of the Group and the availability of an active market in which to trade in shares

at no cost to the Group. The result of the valuation was to assess the Group's Shareholders' Equity value at $3.7 million (2018: $4.9m).

Due to the lower levels of liquidity within the Group's stock and the non-standard method of determining FVLCD, the Directors compared the above valuation using market capitalisation to an alternative approach. This acted as a 'cross-check' of the market capitalisation approach. The Directors used an approach based on probability adjusting current advanced business development opportunities. This 'cross-check' supported the Director's market capitalisation approach, albeit a wide range of valuations resulted.

The result of the above assessment was that no impairment has been recognised (2018: $919,317). Given the uncertainties involved in the valuation process, the Directors have not reversed any previously recognised impairment.

Key estimates and assumptions

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 Group has one CGU. The determination of this CGU 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.

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 Group 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 Group 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 Group's independent qualified reserves engineers.

Key input judgements and estimates used in the determination of recoverable amount include the market capitalization and a control premium.

8. EXPLORATION AND EVALUATION ASSETS

The Group 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. At 31 December 2019 exploration and evaluation assets were nil.

9. ASSET RETIREMENT OBLIGATIONS

The Group 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 profit or loss as an accretion expense (within finance expense), and an increase in the liability in the balance sheet.

Changes resulting from abandonment and reclamation cost estimate revisions, 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 Group's estimates are reviewed at the end of each reporting period for such changes.

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.

Non-Current	2019 $	2018 $
Opening Balance 1 January	11,543,073	11,628,587
Change in estimate	625,009	(286,352)
Accretion expense for the year	236,228	291,637
Reclassified as current	(266,095)	(392,250)
Foreign currency translation adjustment	(434,700)	301,451
Closing Balance 31 December	**11,703,515**	11,543,073

Current		
Opening Balance 1 January	392,250	-
Change in estimate	(15,918)	-
Reclassified from non-current	266,095	392,250
Foreign currency translation adjustment	(15,077)	-
Closing Balance 31 December	**627,350**	392,250

Assumptions		
Total undiscounted value of payments	$22,741,138	$22,645,310
Discount rate	1.06% to 2.79%	1.74% to 2.45%
Inflation rate	2%	2%
Expected life	1 to 36 years	1 to 37 years

Key estimates and assumptions

The calculation of asset retirement obligations includes estimates of the future costs to settle the liability including site reinstatement, the timing of the cash flows to settle the liability, the risk-free discount rate and the future inflation rates. Multi-well efficiency savings have been estimated at 25%. Contingency has been allowed on all wells of 15% except for two of the more complicated wells where the contingency is 30%. 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.

The Group has estimated the expected life of assets and the period in which abandonment costs are expected to incur 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 Group intends to take remedial actions earlier.

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

Assumption	Change	Increase / (decrease) to Provision
Undiscounted value of payments	10%	$1,289,000
Discount rate	+0.1%	($206,000)
Life	+1 year	($219,000)
Life	-1 year	$309,000
Multi-well efficiency cost reduction (from 25% to 15%)	-10%	$794,000
Contingency (from 15%/30% to 20%/35%)	+5%	$397,000

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2019 $	2018 $
Trade payables		900,272	1,195,353
GST payable		146,366	142,768
Financial payables	16	-	901,460
Accrued liabilities - payroll		402,223	415,245
Total Current Accounts payable and accrued liabilities		**1,448,861**	2,654,826

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 2019. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

	2019		2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at 1 January	10,566,000	0.07	10,815,200	0.08
Expired	(566,000)	0.45	(105,200)	0.45
Forfeited	-	-	(144,000)	0.45
Total Outstanding 31 December	**10,000,000**	**0.05**	10,566,000	0.07

Options outstanding and exercisable		**2019**		**2018**	
	Exercise price $	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
Options outstanding	0.05	10,000,000	0.50	10,000,000	1.50
Options outstanding	0.45	-	-	566,000	0.39
Total options outstanding		10,000,000	0.50	10,566,000	1.44
Options exercisable	0.05	10,000,000	0.50	10,000,000	1.50
Options exercisable	0.45	-	-	566,000	0.39
Total options exercisable		10,000,000	0.50	10,566,000	1.44

Options expense	**2019**	**2018**
Expense	-	$24,317

No new options granted in 2019 or 2018. As at 31 December, Officers held 10,000,000 (2018: 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.

All warrants previously issued had expired during 2018. No new warrants have been issued in 2019. As such there were no warrants outstanding and exercisable at 31 December 2019 or 2018.

12. REVENUE

The revenue from the sale of commodities and other operating revenue the Group 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 Group reviews material new contracts using the IFRS 15 5 step model for revenue recognition.

	Note	**2019 $**	**2018 $**
Oil sales		4,696,702	5,421,323
Gas sales		17,417	120,224
Processing revenue		2,331,561	2,701,048
Interest income		18,503	63,996
Other revenue	a)	395,859	158,997
		7,460,042	8,465,588
Purchased oil sold	b)	2,457,901	4,159,236
Other income		-	-
Total Revenue		**9,917,943**	12,624,824

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.

13. PRODUCTION COSTS

Production costs incurred by the Group 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 Group 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

	2019 **$**	**2018** **$**
Professional fees	159,313	175,293
Consulting fees	166,371	116,654
Travel and promotion	63,476	58,049
Administrative expenses	328,126	281,148
Rent	42,472	54,647
Filing and transfer agent fees	19,904	25,027
Insurance	189,904	191,545
Leases	24,983	-
Salary and wages	2,494,778	2,495,092
	3,489,327	3,397,455

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 Group 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 2019 and 2018 has been prepared as follows:

	2019 $	2018 $
Loss before income taxes	1,624,881	996,660
Statutory tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	(422,469)	(259,132)
Effect of tax rates in other jurisdictions	(30,210)	(17,574)
Effect of changes in foreign exchange rates	(31,112)	(41,088)
Adjustment to return	64,307	(10,765)
Tax losses not recognised	419,484	328,559
	-	-

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

	2019 $	2018 $
Deferred income tax assets		
Employee benefits	112,623	116,269
Non-capital losses available for future periods	31,149,541	30,502,007
Environmental liabilities	3,452,642	3,341,890
Share issue costs	1,675	1,675
	34,716,481	33,961,841
Unrecognized deferred tax assets	(33,041,624)	(32,919,210)
Deferred tax assets	1,674,857	1,042,631
Deferred income tax liability		
Inventory	(5,367)	(2,698)
Property, plant and equipment	(281,487)	(594,894)
Resources property	(1,388,003)	(445,039)
	(1,674,857)	(1,042,631)
Net deferred income tax asset*	-	-

*The net amount charged to the profit or loss is $nil (2018: $nil).

The above losses available for future years have been determined by applying a Canadian income tax rate of 26% (2018: 26%) and a New Zealand tax rate of 28% (2018: 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 $17,652,404 (2018: $17,528,361), which will expire between 2030 and 2038. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ$111,488,455 (2018: NZ$108,133,176).

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, 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	2019 $	2018 $
Processing revenue		316,417	319,828
Production costs		438,927	498,652
Processing costs		155,771	-
Rent expense	i)	6,750	6,928
Trade receivables		29,714	30,018
Trade payables		45,586	110,523
Oil & Gas properties expenditure		231,822	200,422
Proceeds from disposal of PPE		166,003	171,070
Current financial receivable	ii)	-	901,460

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

ii) 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) was spread over two years, with future payments and receipts secured by back to back bank guarantees. The arrangement was fully completed and all obligations discharged in March 2019.

Key Management and Personnel Compensation

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

	Twelve months ended 31 December	
	2019 $	2018 $
Salary and consulting fees	906,329	935,556
Share based compensation	-	24,317
	906,329	959,873
Included in the above amounts are:		
Upstream Consulting Ltd (James Willis)	31,453	32,286
Arenig Energy Ltd (David Llewellyn)	23,590	26,008
Michael Adams Reservoir Engineering Ltd (Michael Adams)	370,886	410,852

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 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.

18. COMMITMENTS

As at 31 December 2019, the Group had the following undiscounted contractual obligations:

	2020	2021 to 2022	2023 and onwards	Total
	$	$	$	$
Operating lease obligations	8,000	4,000	-	12,000
Contract and purchase commitments	319,000	400,000	61,000	780,000
	327,000	**404,000**	**61,000**	**792,000**

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.

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 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	220,000	141,000	-	361,000
Tariki Licence	ii	Producing	-	956,000	-	956,000
Waihapa Ngaere Licence	iii	Producing	22,000	22,000	10,000	54,000
			242,000	**1,119,000**	**10,000**	**1,371,000**

i. Eltham (PEP51150): 2020 abandonment 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.

20. FINANCIAL INSTRUMENTS BY CATEGORY

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

	2019	2018
	$	$
Financial assets at amortised cost – cash, receivables, loans	2,223,334	3,377,189
Financial liabilities – at amortised cost – borrowings, payables, loans	1,448,861	2,654,826

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 which permits the use of the lifetime expected loss provision for all trade receivables carried at amortized cost.

At each reporting date, the Group 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 Group's capital includes share capital, shares subscribed, and the cumulative deficit. The Group'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 Group manages its capital structure and adjusts for changes in economic conditions and the risk characteristics of the underlying assets. The Group'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 Group 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 Group'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 Group'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 Group. This note presents information about the Group's exposure to each of these risks, the Group's objectives and processes for measuring and managing risk, and the Group's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit Risk

Credit risk is the risk of potential loss to the Group if the counterparty to a financial instrument fails to meet its contractual obligations. The Group'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 Group's oil production and purchased oil and condensate is sold directly to a major oil Group with payment due 30 days after lifting. The Group 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 Group 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 Group's balance sheet are aged at or under 30 days. The Group 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 Group will work to reduce the credit exposure to that counterparty.

The carrying value of the Group'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 2019 or 2018.

Liquidity Risk

Liquidity risk is the risk the Group will not be able to meet its capital commitments, and other financial obligations as they are due. The Group'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 Group's reputation.

The Group'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 Group prepares operating and capital expenditure budgets which are monitored and updated as considered necessary.

At 31 December 2019, the Group had $nil drawn in a revolving credit facility (2018: $nil), $1,474,809 in cash (2018: $1,237,019) and $1,110,779 in working capital (2018: $1,254,314). As disclosed in Note 19, the Group has various ongoing permit expenditure plans which are associated with the Group's interest in its exploration and evaluation assets. To the extent the Group elects not to carry out the permit expenditure plans pertaining to a specific permit, the Group stands to forfeit its interest in the relevant permit.

Management has estimated the Group 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 Group'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 2019:

	Less than 1 year	2 to 5 years	Thereafter	Total
	$	$	$	$
Accounts payable and accrued liabilities	1,448,861	-	-	1,448,861

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

Foreign Exchange Risk

The Group operates in New Zealand only. All of the Group'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 Group 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 $426,973 (2018: $492,848), and a decrease in the rate of 10% is a gain of $521,856 (2018: $602,369).

Interest Rate Risk

Interest rate risk is the risk future cash flows will fluctuate as a result of changes in market interest rates. The Group 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 Group did not have any interest rate swaps or financial contracts with variable interest rates in place during the period ended 31 December 2019 and any variations in interest rates would not have materially affected net income.

Price Risk

The Group 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 Group for its production are largely beyond the Group'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 Group's oil production is priced

based on an agreed contract price marker based on spot prices, exposing the Group to the risk of price movements. The Group 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. The Group has no assets recognised at fair value

23. SUBSEQUENT EVENTS

a) The global impact of COVID-19 and the associated declines in Brent oil prices have resulted in the Group undertaking a restructuring during April and May. Along with the salary and wages savings, operating costs have also been reduced. Forecasts taking these changes into account indicate the Group can continue as a going concern.
b) Flexgas have given twelve months notice of termination of the Ahuroa Gas Storage operations contract. The contract will end on 31 January 2021.
c) Tariki PML 38138 change to work program and extension of licence for an additional five years, was granted on 19th June 2020.