



**Third Quarter 2015
Unaudited Condensed Consolidated Interim Financial Statements**

30 September, 2015

(Expressed in Canadian Dollars)

NOTICE TO READER

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

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

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Expressed in Canadian Dollars)

	30 September, 2015	31 December, 2014
	\$	\$
Assets		
Current		
Cash and cash equivalents	837,382	1,121,967
Accounts and other receivables (Note 3)	894,553	1,344,883
Prepaid expenses	189,411	377,454
Inventories (Note 4)	2,554,356	2,665,765
	4,475,702	5,510,069
Restricted cash	321,000	339,112
Software and proprietary database	233,053	431,949
Property, plant and equipment (Note 5)	21,737,911	23,887,382
Exploration and evaluation assets (Note 6)	3,520,385	4,193,565
	30,288,051	34,362,077
Liabilities		
Current		
Accounts payable and accrued liabilities	1,111,807	1,908,755
Working Capital Facility (Note 8)	-	411,496
Asset retirement obligation	-	367,720
	1,111,807	2,687,971
Asset retirement obligations (Note 7)	8,183,904	7,902,421
	9,295,711	10,590,392
Shareholders' equity		
Share capital (Note 9)	109,738,706	108,000,912
Foreign currency translation reserve	11,167,517	12,456,181
Share based payments reserve	22,502,942	22,521,868
Accumulated deficit	(122,416,825)	(119,207,276)
	20,992,340	23,771,685
	30,288,051	34,362,077

Description of business and going concern (Note 1)

Commitments (Note 14)

Subsequent events (Note 15)

These unaudited condensed consolidated interim financial statements are authorized for issuance by the Board of Directors on 26 November, 2015.

On behalf of the Board of Directors

“James Willis”
James Willis, Director

“Mark Dunphy”
Mark Dunphy, Director

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of shares	Share capital \$	Share based payments reserve (options) \$	Share based payments reserve (warrants) \$	Foreign currency translation reserve \$	Accumulated deficit \$	Total equity \$
Balance, 31 December, 2013	170,873,459	107,160,526	20,477,624	1,339,675	7,567,066	(35,099,834)	101,445,057
Stock-based compensation (Note 9)	-	-	608,676	-	-	-	608,676
Net loss for the year	-	-	-	-	-	(13,866,021)	(13,866,021)
Other comprehensive income for the year	-	-	-	-	161,659	-	161,659
Balance, 30 September, 2014	170,873,459	107,160,526	21,086,300	1,339,675	7,728,725	(48,965,855)	88,349,371
Balance, 31 December, 2014	187,873,459	108,000,912	21,172,579	1,349,289	12,456,181	(119,207,276)	23,771,685
Units issued, at \$0.04 (Note 9)	44,250,000	1,737,794	-	-	-	-	1,737,794
Stock-based compensation (Note 9)	-	-	(18,926)	-	-	-	(18,926)
Net loss for the year	-	-	-	-	-	(3,209,549)	(3,209,549)
Other comprehensive income for the year	-	-	-	-	(1,288,664)	-	(1,288,664)
Balance, 30 September, 2015	232,123,459	109,738,706	21,153,653	1,349,289	11,167,517	(122,416,825)	20,992,340

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in Canadian Dollars)

	Three Months Ended		Nine Months Ended	
	30 September		30 September	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues (Note 10)	1,296,485	2,104,561	3,718,686	11,500,722
Expenses and other items				
Production costs	251,638	459,102	796,266	2,123,804
Purchased oil and condensate	-	-	-	4,377,075
Processing costs	318,457	101,265	684,289	691,224
Depreciation	377,857	1,088,238	1,237,707	2,785,011
Impairment (Notes 5 and 6)	-	22,984	508,235	9,353,998
Loss on Disposal	-	143,081	-	196,718
Stock-based compensation (Note 9(b))	(99,284)	109,014	(18,926)	504,226
General and administrative (Note 11)	1,009,138	1,707,520	3,442,847	4,972,301
Finance expense	104,575	72,318	193,087	224,275
Other	140,868	79,684	84,730	138,111
	<u>2,103,249</u>	<u>3,783,206</u>	<u>6,928,235</u>	<u>25,366,743</u>
Net loss for the period	(806,764)	(1,678,645)	(3,209,549)	(13,866,021)
Exchange difference on translation of foreign currency	265,349	(6,862,114)	(1,288,664)	161,659
Total comprehensive income for the period	(541,415)	(8,540,759)	(4,498,213)	(13,704,362)
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.08)
Weighted average shares outstanding	232,123,459	170,873,459	218,832,250	170,873,459

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

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	30 September, 2015	30 September, 2014
	\$	\$
Operating activities		
Net loss for the period	(3,209,549)	(13,866,021)
Changes for non-cash operating items		
Stock-based compensation	(18,926)	504,226
Depreciation and accretion	1,516,597	3,018,772
Foreign exchange loss	(1,149)	15,279
Impairment	508,235	9,353,998
Loss on Disposal	-	196,718
Change in non-cash working capital items		
Accounts and other receivables	437,115	4,346,474
Prepaid expenses	176,814	277,496
Inventories	(21,382)	(93,288)
Accounts payable and accrued liabilities	(739,386)	(4,899,746)
Cash provided by (used in) provided by operating activities	(1,351,631)	(1,146,092)
Investing activities		
Expenditures on resource properties	(36,881)	(757,808)
Proceeds from sale of assets	-	1,337,560
Purchase of proprietary database	-	(148,133)
Purchase of property and equipment	(203,098)	(3,476,359)
Cash used in investing activities	(239,979)	(3,044,740)
Financing activities		
Shares issued (net of share issuance cost) (Note 9(a))	1,737,794	-
Working capital facility (Note 8)	(398,573)	30,650
Cash provided by financing activities	1,339,221	30,650
Net decrease in cash and cash equivalents during the period	(252,389)	(4,160,182)
Effect of exchange rate changes on cash	(32,196)	44,408
Cash and equivalents, beginning of the period	1,121,967	4,902,888
Cash and equivalents, end of the period	837,382	787,114
Supplemental cash flow disclosures		
Changes in accounts payable related to exploration and evaluation assets	120,178	225,609
Changes in accounts payable related to property, plant and equipment	20,559	935,572

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

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
30 September, 2015
(Expressed in Canadian Dollars)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

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

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

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 119-125 Devon Street East, New Plymouth, New Zealand 4310.

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

Going Concern

While 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, certain conditions cast some doubt on the validity of this assumption. For the nine months ended 30 September, 2015, the Company reported a loss of \$3,209,549 and a cash outflow from operating activities of \$1,351,631 and as at that date, the Company had working capital of \$3,363,895. The Company also has several work program items (Note 14) which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

The Company continues to pursue a number of options to increase its financial capacity, including cash flow from oil and gas production, credit facilities, commercial arrangements, equity raising or other financing alternatives. In December 2014 the Company raised \$850,000 in working capital, through the issue of 17,000,000 shares as described in Note 9. In March 2015 the Company raised a further \$1,770,000 in working capital, through the issue of 44,250,000 shares as described in Note 9.

The Company's ability to improve its financial capacity and the relative success, and cash flow generated from, intended operations cannot be assured.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended 31 December, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

The Company has used the same accounting policies and methods of computation as in the audited annual consolidated financial statements for the year ended 31 December, 2014.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
30 September, 2015

(Expressed in Canadian Dollars)

3. ACCOUNTS AND OTHER RECEIVABLES

	30 September, 2015	31 December, 2014
	\$	\$
Trade receivables	858,532	920,640
GST receivables	4,172	57,975
Other receivables	31,849	366,268
	<u>894,553</u>	<u>1,344,883</u>

4. INVENTORIES

	30 September, 2015	31 December, 2014
	\$	\$
Material and supplies	2,092,119	2,232,529
Oil inventories	462,237	433,236
	<u>2,554,356</u>	<u>2,665,765</u>

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixture	Plant and equipment	Land and building	Oil and gas properties	Total
	\$	\$	\$	\$	\$
Cost					
Balance, 31 December, 2013	580,504	7,901,550	1,329,602	47,178,885	56,990,541
Additions	127,053	378,055	-	2,856,973	3,362,081
Disposals / Transfers	(217,491)	(926,875)	-	-	(1,144,366)
Impairment	-	-	-	(26,434,146)	(26,434,146)
Change in Asset Retirement cost due to change in estimate	-	262,043	-	77,437	339,480
Foreign currency translation adjustment	7,285	307,099	47,040	1,957,621	2,319,045
Balance, 31 December, 2014	<u>497,351</u>	<u>7,921,872</u>	<u>1,376,642</u>	<u>25,636,770</u>	<u>35,432,635</u>
Additions	10,788	27,791	-	120,137	158,716
Disposals	(95,529)	(7,425)	-	-	(102,954)
Change in Asset Retirement cost due to change in estimate	-	26,890	-	58,774	85,664
Foreign currency translation adjustment	(24,928)	(432,406)	(73,529)	(1,375,523)	(1,906,386)
Balance, 30 September, 2015	<u>387,682</u>	<u>7,536,722</u>	<u>1,303,113</u>	<u>24,440,158</u>	<u>33,667,675</u>
Accumulated depreciation					
Balance, 31 December, 2013	224,724	125,898	-	7,469,922	7,820,544
Depreciation and depletion	15,601	330,388	-	3,193,169	3,539,158
Transferred to assets held for sale	-	(41,571)	-	-	(41,571)
Foreign currency translation adjustment	4,424	3,642	-	219,056	227,122
Balance, 31 December, 2014	<u>244,749</u>	<u>418,357</u>	<u>-</u>	<u>10,882,147</u>	<u>11,545,253</u>
Depreciation and depletion	36,057	274,612	-	843,400	1,154,069
Disposals	(95,529)	(7,425)	-	-	(102,954)
Foreign currency translation adjustment	(14,813)	(34,473)	-	(617,318)	(666,604)
Balance, 30 September, 2015	<u>170,464</u>	<u>651,071</u>	<u>-</u>	<u>11,108,229</u>	<u>11,929,764</u>
Net book value					
Balance, 31 December, 2014	<u>252,602</u>	<u>7,503,515</u>	<u>1,376,642</u>	<u>14,754,623</u>	<u>23,887,382</u>
Balance, 30 September, 2015	<u>217,218</u>	<u>6,885,651</u>	<u>1,303,113</u>	<u>13,331,929</u>	<u>21,737,911</u>

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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6. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand	East Coast Basin, New Zealand	Total
	\$	\$	\$
Balance, 31 December, 2013	43,466,442	8,033,595	51,500,037
Additions	366,055	637,352	1,003,407
Recoveries	(372,309)	-	(372,309)
Asset retirement obligation recognized	(42,299)	-	(42,299)
Impairment - Eltham	(37,116,249)	-	(37,116,249)
Impairment - Alton	(4,196,922)	-	(4,196,922)
Impairment - Manaia	(535,742)	-	(535,742)
Impairment - Wairoa	-	(4,693,027)	(4,693,027)
Impairment - Castlepoint	-	(4,102,245)	(4,102,245)
Foreign currency translation adjustment	2,110,476	638,438	2,748,914
Balance, 31 December, 2014	3,679,452	514,113	4,193,565
Additions	39,583	(2,700)	36,883
Impairment - East Cape	-	(508,235)	(508,235)
Foreign currency translation adjustment	(198,650)	(3,178)	(201,828)
Balance, 30 September, 2015	3,520,385	-	3,520,385

The Company's oil and gas properties are located in New Zealand and its interests in these properties are maintained pursuant to the terms of permits and licences granted by the New Zealand government. The Company is satisfied that evidence supporting the current validity of these permits and licences is adequate and acceptable by prevailing industry practices in respect to the current stage of exploration on these properties.

On 21 May, 2015 the Company relinquished its interest in the East Cape Petroleum Exploration Permit (PEP 52976). The total cost of \$508,235 capitalised as exploration and evaluation assets has been written off.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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7. LONG TERM ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim its wells in certain licences and permits, and restoration obligations associated with the land at the Waihapa Production Station together with the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is estimated at approximately \$13.5 million.

The following table summarizes the Company's asset retirement obligations:

Balance, 31 December, 2013	7,068,585
Change in estimate	298,615
Accretion expense for the year	313,689
Foreign currency translation adjustment	240,812
Reclassified as current	(19,280)
Balance, 31 December, 2014	7,902,421
Change in estimate	177,988
Accretion expense for the year	192,143
Foreign currency translation adjustment	(436,728)
Reclassified as non current	348,080
Balance, 30 September, 2015	8,183,904

The following are the assumptions used to estimate the provision for asset retirement obligations:

	2015	2014
Total undiscounted value of payments	\$13,472,207	\$15,843,919
Discount rate	2.99% to 3.54%	3.56% to 3.67%
Expected life	1 to 24 years	1 to 25 years

8. WORKING CAPITAL FACILITY

On September 24, 2014, the Company entered into a working capital facility (the "Facility") with New Dawn Energy Ltd ("New Dawn") for up to NZ\$5 million.

The total of the facility drawdown (NZ\$638,457) was fully repaid in cash on 31 March, 2015. All securities have been released and the Facility terminated.

9. SHARE CAPITAL

a) Details of issuances of common shares:

- i) The Company has an unlimited number of common shares without par value authorized for issuance.
- ii) On 15 December, 2014, the Company completed a non-brokered private placement issuing 17,000,000 units at a price of \$0.05, for gross proceeds of \$850,000. Each unit consists of one common share and one common share purchase warrant (refer to Note 9(c)). Each whole warrant entitles the holder thereof to acquire one common share at a price of \$0.07 per share until 15 December, 2015. These securities were subject to a hold period that expired on 16 April, 2015.
- iii) On 23 March, 2015, the Company completed a non-brokered private placement issuing 44,250,000 common shares at a price of \$0.04 per share, for gross proceeds of \$1,770,000. The shares issued are subject to a four month and one day hold period that expired on 24 July, 2015. Total costs in connection with the private placement were \$32,206. Geoservices Limited ("Geoservices") subscribed for 29,000,000 shares under the private placement and, upon completion of the private placement, Geoservices owns or controls 46,000,000 common shares or approximately 19.82% of NZEC's total issued and outstanding common shares, and 17,000,000 common share purchase warrants. Exercise of these warrants would result in Geoservices shareholding exceeding 20% of NZEC's total issued and outstanding common shares. A resolution passed by vote of the disinterested shareholders of the Company granted approval at the AGM on 16 June, 2015, for Geoservices to become a new Control

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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Person of the Company. The purchase of the securities by Geoservices was made for investment purposes. Subject to TSX-V rules, Geoservices may increase or decrease its investment in NZEC depending on market conditions or any other relevant factors.

b) Share purchase options

The Company has adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, at their discretion, and in accordance with TSX Venture Exchange requirements, grant to its directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issue does not exceed 10% of the number of then outstanding common shares, or 23,212,346 options, based on the total issued and outstanding common shares as at 30 September, 2015. 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.

A continuity table of share purchase options for the nine months ended 30 September, 2015 is as follows:

	Number of options	Weighted average exercise price \$
Outstanding at 31 December, 2013	8,874,700	1.30
Granted	4,158,000	0.45
Forfeited	(561,000)	0.45
Expired	(4,554,500)	0.67
Outstanding at 31 December, 2014	7,917,200	0.54
Forfeited	(1,086,500)	0.45
Expired	(4,183,000)	0.61
Outstanding at 30 September, 2015	2,647,700	0.45

The following table summarises information about share options outstanding and exercisable at 30 September, 2015:

Range of exercise price	Options Outstanding		Options Exercisable	
	Number of contractual options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
\$0.01 to \$0.99	2,647,700	3.03	2,010,825	2.85
	2,647,700	3.03	2,010,825	2.85

The following table summarises information about share options outstanding and exercisable at 31 December, 2014:

Range of exercise price	Options Outstanding		Options Exercisable	
	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
\$0.01 to \$0.99	6,667,200	3.50	3,706,150	2.97
\$1.00 to \$1.49	1,250,000	1.59	1,250,000	1.59
	7,917,200	3.20	4,956,150	2.62

The total expense relating to share purchase options incurred for nine-month period ended 30 September, 2015 was (\$18,926) (30 September, 2014: \$608,676).

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The following are the weighted average assumptions employed to estimate the fair value of options granted using the Black-Scholes option pricing model:

	2015	2014
Risk-free interest rate	N/A	1.55%
Expected volatility	N/A	96.6%
Expected life	N/A	5 years
Expected dividend yield	Nil%	Nil%

No options were granted by the company for the nine-month period ended 30 September, 2015.

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 data from comparable companies in the industry. Changes in these assumptions may have a significant impact on the fair value calculation.

During 2014, the Company re-priced 5,551,200 share purchase options issued historically to officers, employees and consultants of the Company that had original exercise prices within the range of \$1.00 to \$3.00. The options were repriced to \$0.45. The vesting provisions related to the option grants remain unchanged. Stock options granted to directors at \$1.00 per share were not re-priced. The fair value adjustment of the repricing was included in the stock-based compensation expense.

c) Warrants

Warrants issued in unit issuance

On 28 October, 2013, the Company completed an oversubscribed private placement, issuing 48,904,355 subscription receipts at a price of \$0.33 per subscription receipt. On 21 November, 2013, following receipt from the British Columbia Securities Commission for the Company's short form prospectus, the subscription receipts converted into units consisting of one common share and one-half of one non-transferable share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share of the Company at price of \$0.45 with an expiry date of 28 October, 2014. On 1 October, 2014, the Company received approval to extend the expiry date of 24,452,178 private placement warrants from 28 October, 2014 to 28 October, 2015. These warrants maintain an exercise price of \$0.45 which entitles the holder to acquire one common share of the Company. On 21 October, 2015 the Company received approval to extend the expiry date of these warrants to 21 October, 2018 (see note 15(a)).

On 15 December, 2014, the Company completed a non-brokered private placement, issuing 17,000,000 units at a price of \$0.05. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share at a price of \$0.07 per share until 15 December, 2015. These securities were subject to a hold period that expired on 16 April, 2015. On 21 October, 2015 the Company received approval to extend the expiry date of these warrants to 15 December, 2018 (see note 15(a)).

As at 30 September, 2015 all outstanding warrants are exercisable.

A continuity table of share purchase warrants for the nine months ended 30 September, 2015 is as follows:

	Number of warrants	Weighted average exercise price
		\$
Outstanding at 31 December, 2013	24,452,178	0.45
Warrants issued from private placement	17,000,000	0.07
Outstanding at 31 December, 2014 and 30 September, 2015	41,452,178	0.29

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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The following are the weighted average assumptions employed to estimate the fair value of the warrants granted using the Black-Scholes warrant pricing model:

	2015	2014
Risk-free interest rate	N/A	1.02%
Expected volatility	N/A	44.21%
Expected life	N/A	1 year
Expected dividend yield	N/A	Nil%

No warrants were granted by the company for the nine-month period ended 30 September, 2015.

10. REVENUES

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	\$	\$	\$	\$
Oil sales	553,168	1,787,395	2,084,245	6,298,345
Gas sales	87,253	43,839	239,316	85,882
Processing revenue (a)	669,732	420,860	1,515,407	1,283,427
Other Revenue	13,223	8,782	29,887	28,304
Royalties	(26,891)	(156,315)	(150,169)	(572,311)
	1,296,485	2,104,561	3,718,686	7,123,647
Purchased condensates (b)	-	-	-	1,491,358
Purchased oil (b)	-	-	-	2,885,717
	1,296,485	2,104,561	3,718,686	11,500,722

a) As part of its operations of the TWN Assets, the Company provides services to third parties, including oil handling and pipeline throughput services, gas processing, as well as handling and disposal of produced water. The Company operates the nearby Ahuroa Gas Storage (AGS) Facility on behalf of Contact Energy Limited. Contact Energy and the Company have agreed to amend aspects of the commercial relationship with Contact Energy Limited for the operation of the AGS Facility and in regard to the Waihapa Production Station ("WPS"). The amendments include (all figures are 100%; the Company has a 50% interest):

- escalation of the Base Fee for operation of the AGS Facility from NZ\$201,000 per month to NZ\$207,387 per month and the fixing of the Base Fee at this level for a 24 month period from 1 July, 2015 to 30 June, 2017; and
- the grant to Contact Energy of gas processing priority rights at the WPS for NZ\$49,000 per month (for the period from 1 November, 2014 until 30 June, 2015); and NZ\$75,000 per month (for the period from 1 July, 2015 to 30 June, 2017).

The figures for the three and nine months ended 30 September, 2015 reflect that agreement. Full payment of the amended fees described above was received in October 2015.

b) In 2014 the Company purchased condensate and oil and on-sold both to another company. These agreements ended on 1 March, 2014 (condensate) and 1 May, 2014 (oil). The Company no longer assumes the risks and rewards of ownership of the condensate and oil, and therefore no longer records any revenue (or associated costs).

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

30 September, 2015

(Expressed in Canadian Dollars)

11. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	\$	\$	\$	\$
Professional fees	29,326	12,784	162,754	79,592
Management fees	-	259,600	-	845,699
Consulting fees	43,356	31,894	241,251	208,065
Travel and promotion	15,040	11,212	36,852	155,984
Administrative expenses	165,375	109,213	334,836	503,378
Rent	47,277	41,314	105,802	113,382
Filing and transfer agent fees	16,231	11,203	57,587	43,237
Insurance	50,061	180,770	324,698	276,238
Salary and wages	642,472	1,049,530	2,179,067	2,746,726
	1,009,138	1,707,520	3,442,847	4,972,301

12. RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	\$	\$	\$	\$
Salary and other fees	438,248	508,569	1,099,275	1,847,148
Share-based compensation	(73,650)	68,869	(20,921)	258,785
	364,598	577,438	1,078,354	2,105,933

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. Included in the above amounts are:

- consulting fees of \$101,812 (2014: \$Nil) paid to Upstream Consulting Ltd, an entity associated with Mr James Willis;
- consulting fees of \$121,683 (2014: \$Nil) paid to Michael Adams Reservoir Engineering Limited, an entity associated with Michael Adams;
- management fees of \$Nil (2014: \$927,500) paid to J. Proust and Associates Inc., an entity which had officers in common.

Greymouth Petroleum Limited

Greymouth Petroleum Ltd became a related party on 23 March, 2015 with directors in common. Transactions and balances (revenue to the Company in nature) since that date comprise:

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	\$	\$	\$	\$
Processing revenue	108,281	-	220,856	-
Accounts receivable	39,258	-	39,258	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

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13. SEGMENTED DISCLOSURES

The Company conducts its business as a single operating segment focused on the acquisition, exploration, development and production of conventional oil and natural gas resources in New Zealand. All resource properties are situated in New Zealand.

14. COMMITMENTS

As at 30 September, 2015, the Company had the following undiscounted contractual obligations:

	2015	2016 to 2017	2018 and onwards	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,111,807	-	-	1,111,807
Operating lease obligations ⁽¹⁾	46,833	237,359	1,152	285,344
Contract and purchase commitments	131,443	448,398	692,311	1,272,152
Environmental obligations ⁽²⁾		351,050	13,121,157	13,472,207
	1,290,083	1,036,807	13,814,620	16,141,510

⁽¹⁾ The Company has office leases in Wellington and New Plymouth.

⁽²⁾ The Company has recognized undiscounted asset retirement obligations of \$13.5 million (Note 7).

PERMIT EXPENDITURE PLANS

The Company has various works planned which are associated with the Company's interests in its oil and gas properties and exploration and evaluation assets. The anticipated cost of the works planned are set out below and relate to the following permits:

Permit	Type	2015	2016 to 2017	2018 and onwards	Total
		\$	\$	\$	\$
<i>Taranaki Basin</i>					
Copper Moki Permit	Producing	685,000	-	-	685,000
Eltham Permit	Exploration	445,000	3,852,000	-	4,297,000
Alton Permit	Exploration	2,865,000	3,115,000	-	5,980,000
Total		3,995,000	6,967,000	-	10,962,000

Note: Change of condition applications have been lodged with the regulator in respect of:

- Copper Moki Permit (27 October, 2015): to remove a gas pipeline obligation (the \$685,000 of expenditure shown above) in the permit work programme due to implementation of a water flood project in the Copper Moki-1 – Waitapu-2 oil pool; and
- Alton Permit (22 August, 2015): deferring drilling of an exploration well to November 2016 and restructuring the timing of the subsequent work programme.
- The 2016 to 2017 work plans of \$6,967,000 shown are contingent and require that the company maintains its current interest in the subject concessions

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15. SUBSEQUENT EVENTS

- a) **Warrants** – on 21 October, 2015 the Company received approval to extend the expiry date of the following private placement warrants:
- 24,452,178 warrants from 28 October, 2015 to 28 October, 2018. Each warrant maintains an exercise price of \$0.45 which entitles the holder to acquire one common share of the Company;
 - 17,000,000 warrants from 15 December, 2015 to 15 December, 2018. Each warrant maintains an exercise price of \$0.07 which entitles the holder to acquire one common share of the Company.
- b) **Copper Moki Permit** – on 27 October, 2015, NZEC lodged a change of conditions application with the regulator (New Zealand Petroleum & Minerals) to remove a gas pipeline obligation in the permit work programme.
- c) **Options** - on 25 November, 2015 the Directors resolved to grant 10,000,000 options to a senior officer of the Company. These options will have a vesting date of 30 June 2018, an expiry date of 30 June 2020, will be exercisable at \$0.05 per share and are otherwise granted in accordance with the terms and conditions of the Company's approved stock option plan.