



Consolidated Financial Statements

Year Ended December 31, 2013

(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 that management make estimates and assumptions and use judgment. When alternate accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, were appointed by shareholders as the external auditor 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 that the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that 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 that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that 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.

"John G. Proust"
John G. Proust, Chief Executive Officer

"Derek L. Gardiner"
Derek L. Gardiner, Chief Financial Officer



April 30, 2014

Independent Auditor's Report

To the Shareholders of New Zealand Energy Corp.

We have audited the accompanying consolidated financial statements of New Zealand Energy Corp. (the Company), which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"PricewaterhouseCoopers LLP"

Chartered Accountants

PricewaterhouseCoopers LLP

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CONSOLIDATED BALANCE SHEETS
As at December 31, 2013 and 2012
(Expressed in Canadian Dollars)

Assets	2013	2012
Current	\$	\$
Cash and cash equivalents	4,902,888	5,983,121
Accounts and other receivables (Note 5)	5,873,650	4,097,130
Deposit - short term (Note 6)	-	35,833,232
Prepaid expenses	489,684	247,511
Inventory (Note 7)	3,121,117	2,976,643
Assets held for sale (Note 8)	759,858	-
	15,147,197	49,137,637
Restricted cash (Note 3)	327,525	-
Deposit - long term (Note 6)	79,341	5,277,217
Software and proprietary database (Note 9)	558,590	397,601
Property, plant and equipment (Note 10)	49,169,997	23,867,758
Exploration and evaluation assets (Note 11)	51,500,037	37,379,726
	116,782,687	116,059,939
Liabilities		
Current		
Accounts payable and accrued liabilities	7,920,605	10,392,433
Operating line of credit (Note 12)	-	10,451,359
Asset retirement obligation (Note 13)	348,440	-
	8,269,045	20,843,792
Asset retirement obligations (Note 13)	7,068,585	2,598,840
	15,337,630	23,442,632
Shareholders' equity		
Share capital (Note 14)	107,160,526	93,153,117
Foreign currency translation reserve	7,567,066	1,762,786
Contributed surplus	21,817,299	17,693,647
Accumulated deficit	(35,099,834)	(19,992,243)
	101,445,057	92,617,307
	116,782,687	116,059,939

Description of business and going concern (Note 1)
Commitments (Note 20)
Subsequent events (Note 23)

These consolidated financial statements are authorized for issuance by the Board of Directors on April 30, 2014.

On behalf of the Board of Directors

“John G. Proust”
John G. Proust, Director

“John A. Greig”
John A. Greig, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2013 and 2012
(Expressed in Canadian Dollars)

	Number of shares	Share Capital \$	Contributed Surplus (stock-based payment) \$	Contributed Surplus (warrants) \$	Foreign Currency Translation Reserve \$	Accumulated Deficit \$	Total Equity \$
Balance, December 31, 2012	121,769,105	93,153,117	17,470,184	223,463	1,762,786	(19,992,243)	92,617,307
Units issued, at \$0.33 (Note 14(a))	48,904,354	16,138,437	-	-	-	-	16,138,437
Warrants in units issued (Note 14(a,d))	-	(970,751)	-	970,751	-	-	-
Share issue costs	-	(1,214,816)	-	-	-	-	(1,214,816)
Advisor warrants granted (Note 14(a))	-	(205,817)	-	205,817	-	-	-
Stock-based compensation (Note 14(c))	-	-	3,007,440	-	-	-	3,007,440
Advisor warrants exercised (Note 14(d))	200,000	260,356	-	(60,356)	-	-	200,000
Net loss for the year	-	-	-	-	-	(15,107,591)	(15,107,591)
Other comprehensive income for the year	-	-	-	-	5,804,280	-	5,804,280
Balance, December 31, 2013	170,873,459	107,160,526	20,477,624	1,339,675	7,567,066	(35,099,834)	101,445,057
Balance, December 31, 2011	100,609,105	33,827,912	12,712,018	223,463	(82,895)	(16,911,070)	29,769,428
Common shares, at \$3.00 (Note 14(a))	21,160,000	63,480,000	-	-	-	-	63,480,000
Share issue costs	-	(4,154,795)	-	-	-	-	(4,154,795)
Stock-based compensation	-	-	4,758,166	-	-	-	4,758,166
Net loss for the year	-	-	-	-	-	(3,081,173)	(3,081,173)
Other comprehensive income for the year	-	-	-	-	1,845,681	-	1,845,681
Balance, December 31, 2012	121,769,105	93,153,117	17,470,184	223,463	1,762,786	(19,992,243)	92,617,307

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	2013	2012
	\$	\$
Revenues		
Oil sales (Note 15)	10,659,555	17,295,853
Processing revenue (Note 15)	468,671	-
Less: royalties	(465,347)	(819,882)
	<u>10,662,879</u>	<u>16,475,971</u>
Expenses and other items		
Production costs	4,570,294	5,116,059
Purchased oil and condensate	2,170,236	-
Depreciation	3,193,785	4,103,405
Impairment (Notes 8 and 11)	6,984,444	-
Stock-based compensation (Note 14(c))	685,257	1,594,780
General and administrative (Note 16)	7,197,024	5,896,949
Finance expense (income)	97,598	(211,551)
Foreign exchange loss	452,176	1,895,845
Transaction cost	1,823,243	1,161,657
Gain on acquisition (Note 3)	(1,403,587)	-
	<u>25,770,470</u>	<u>19,557,144</u>
Net loss for the year	(15,107,591)	(3,081,173)
Exchange difference on translation of foreign currency	5,804,279	1,845,681
Total comprehensive loss for the year	(9,303,312)	(1,235,492)
Basic and diluted loss per share	\$ (0.12)	\$ (0.03)
Weighted average shares outstanding	127,319,719	117,131,297

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	2013	2012
	\$	\$
Operating activities		
Net loss for the year	(15,107,591)	(3,081,173)
Stock-based compensation	685,257	1,594,780
Depreciation and accretion	3,354,945	4,103,405
Foreign exchange loss	83,520	1,501,200
Impairment	6,984,444	-
Gain on Acquisition (Note 3)	(1,403,587)	-
Change in non-cash working capital items		
Accounts and other receivables	(1,480,933)	(2,332,589)
Prepaid expenses	(210,774)	(111,408)
Short term deposit	-	(1,012,795)
Restricted cash	(316,762)	-
Inventories	132,295	(1,564,149)
Accounts payable and accrued liabilities	3,025,972	2,381,651
Cash provided by (used in) operating activities	(4,253,214)	1,478,922
Investing activities		
Expenditures on resource properties	(22,817,240)	(32,677,542)
Term deposit	37,551,728	(35,038,927)
Purchase of proprietary database	(132,226)	(124,423)
Purchase of property and equipment	(14,863,301)	(7,973,276)
Deposit (Note 6)	-	(5,087,158)
Cash used in investing activities	(261,039)	(80,901,326)
Financing activities		
Shares issued (net of share issuance cost)	15,123,622	59,325,205
Operating line of credit	(11,557,727)	10,438,973
Cash provided by financing activities	3,565,895	69,764,178
Net decrease in cash and cash equivalents during the year	(948,358)	(9,658,226)
Effect of exchange rate changes on cash	(131,875)	(503,262)
Cash and equivalents, beginning of the year	5,983,121	16,144,609
Cash and equivalents, end of the year	4,902,888	5,983,121
Supplemental cash flow disclosures		
Accounts payable related to exploration and evaluation assets	236,190	(7,371,170)
Accounts payable related to property, plant and equipment	1,023,983	-

See accompanying notes to the consolidated financial statements.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
December 31, 2013
(Expressed in Canadian Dollars)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

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

The Company, through its subsidiaries, is engaged in the production, exploration and development of conventional and unconventional oil and natural gas resources in New Zealand, as well as the operation of the midstream assets in which the Company holds a working interest.

The Company's registered and records office is located at Suite 1200 - 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T8. The Company's head office is located at Suite 1680 - 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6.

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 significant doubt on the validity of this assumption. For the year ended December 31, 2013, the Company reported a loss of \$15,107,591 and a cash outflow from operating activities of \$4,253,214 and as at that date, the Company had working capital of \$6,878,152. The Company also has various ongoing work program commitments (Note 20) which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

The Company continues to consider a number of options to increase its financial capacity, including cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives.

The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flow from operations. The Company has recently undertaken a number of development activities which are underway as of the report date. The success of these development activities, or whether sufficiently profitable operations will be attained from these development activities, 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis. 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 corporations over which the Company is able to exercise control. Control exists when the Company has the power, directly or indirectly, to govern the financial and

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
December 31, 2013
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

operating policies of an entity so as to obtain benefits from its activities. The subsidiaries of the Company are as follows:

Company	Location	Interest
NZ Holdings Pte. Ltd.	Singapore	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 Venture II Limited	New Zealand	100%
NZEC Tariki Ltd.	New Zealand	100%
NZEC Ahuroa Ltd.	New Zealand	100%
NZEC Waihapa Ltd.	New Zealand	100%
NZEC Stratford Ltd.	New Zealand	100%
NZEC Wairoa Ltd.	New Zealand	100%
NZEC Riverlea Ltd.	New Zealand	100%
NZEC Manaia Ltd.	New Zealand	100%

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

Interests in Joint Arrangements

As at December 31, 2013, the Company owned a 65% working interest in a joint arrangement to conduct oil and gas exploration activities on the Alton Permit, a 60% working interest in a joint arrangement to conduct oil and gas exploration activities on the Manaia Permit, and an 80% working interest in a joint arrangement to conduct oil and gas exploration activities on the Wairoa Permit.

The Company also owned a 50% working interest in a joint arrangement to explore, develop and operate the Tariki, Waihapa and Ngaere petroleum mining licenses (the "TWN Licenses") as well as the Waihapa Production Station ("TWN Assets") held in the TWN Limited Partnership. See Note 3.

The Company has determined that these joint arrangements represent joint operations (see Note 4). The consolidated financial statements include the Company's share of the assets, liabilities and cash flows of the joint arrangements. The Company combines its share of the joint arrangements' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. Income taxes are recorded based on the Company's share of the joint arrangement's activities.

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes may differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
December 31, 2013
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgements (continued)

a) Significant accounting estimates and assumptions

The following discusses the most significant accounting estimates and assumptions that the Company has made in the preparation of the consolidated financial statements.

i) Oil and gas reserve determination

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to the proved and probable reserves and incorporating the estimated future cost to develop and extract those reserves. The process of estimating reserves requires significant estimates based on available geological, geophysical, engineering and economic data. The estimate of the economically recoverable oil and natural gas reserves and related future net cash flows incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs. Future development costs are estimated using assumptions as to the number of wells required to produce the reserves, the cost of such wells and associated production facilities, and other capital costs.

ii) Asset retirement obligations

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

iii) Income tax

The Company is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Estimates of future taxable income are based on forecasted cash flows and the application of tax laws in each jurisdiction. Management reassesses unrecognized deferred tax assets at the end of each reporting period.

iv) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees based on the fair value of the equity instruments on the date of grant. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield, and making assumptions about them. The assumptions used for estimating the fair value for share-based payment transactions are disclosed in Note 14.

b) Significant judgements in applying the Company's accounting policies

i) Exploration and evaluation assets

Costs incurred to acquire rights to explore for oil and natural gas may be grouped into either exploration and evaluation, or property, plant and equipment, depending on facts and circumstances. Costs incurred in respect of properties that have been determined to have proved and probable reserves are classified as property, plant and equipment. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no nearby established development past or present and no proved or probable reserves assigned are classified as exploration and evaluation assets.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
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(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgements (continued)

b) Significant judgements in applying the Company's accounting policies (continued)

ii) 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. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks, and materiality, and are subject to management's judgement.

iii) Impairment indicators and calculation of impairment

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

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

iv) Impairment indicators and calculation of impairment (continued)

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

- a) Reserves – Assumptions that are valued at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- b) Oil and natural gas prices – Forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amounts. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, relinquishment of the right to explore, or a reduction in estimates of proved and probable reserves.

v) Interests in other entities

As part of the Company's process in determining the classification of its interests in other entities, the Company applies judgement in interpreting these interests, such as the following:

- The determination of the level of control (joint control or significant influence) held by the Company;
- The legal structure and contractual terms of the arrangement;
- When relevant, the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle; and
- When relevant, other facts and circumstances.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
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(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgements (continued)

b) Significant judgements in applying the Company's accounting policies (continued)

v) *Interests in other entities (continued)*

Joint control is considered to exist when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual agreement. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party with joint control has rights to the net assets of the arrangements. Interests in joint ventures are recognized as an investment and accounted for using the equity method.

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party with joint control has rights to the assets and liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Company's proportionate share of assets, liabilities, revenues and expenses. Judgements of whether the Company has rights to the assets and liabilities relating to arrangements include:

- Whether the Company may be exposed to liabilities by way of guarantees provided to external parties;
- Whether hydrocarbons produced from the arrangement are for the joint benefit of the Company and its partners;
- Whether preference is given to the operations of the Company and its partners when it comes to services provided by the arrangement; and
- Whether the arrangement forms a vital part of the Company's operating assets.

Foreign Currency Translation

a) Functional and presentation currency

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

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities of the Company that are 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.

b) Subsidiaries and joint arrangements

The functional currency of the Company's Singapore holding company, NZ Holdings Pte. Ltd., is the U.S. dollar ("US\$"). The functional currency of the Company's New Zealand subsidiaries and joint arrangements is the New Zealand dollar ("NZ\$").

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

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

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

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
December 31, 2013
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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 that are subject to an insignificant risk of change in value.

Accounts and Other Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less any provisions for uncollectible accounts.

Inventories

Material and supply inventories consist of wellheads, tubulars and explosives purchased for use in oil and gas operations and are valued at the lower of cost, or net realizable value. 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.

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. The cost of inventories is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Proprietary Database

The proprietary database is carried at cost and is amortized annually under the straight line method based on an estimated useful life of five years for seismic models and geological data.

The cost of the proprietary database consists of the purchase price and any costs directly attributable to bringing the asset to the condition necessary for its intended use.

The proprietary database is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of the proprietary database shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized as profit or loss within the consolidated statement of comprehensive loss.

Property, Plant and Equipment

a) 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 depreciated 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.

b) Plant and equipment

Plant and equipment includes the TWN Assets, which are carried at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the items. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
December 31, 2013
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

b) Plant and equipment (continued)

The depreciable amount of the asset is the cost of the asset less its residual value. Depreciation ceases to be recognized when an asset's residual value exceeds its carrying amount. The Company reviews residual values, depreciation methods and useful lives at least annually. Any changes in estimates that arise from this review are accounted for prospectively. Leasehold improvements are depreciated using the straight-line method over an estimated useful life of five years.

The TWN Assets are depreciated using the straight-line method over an estimated useful life of 25 years.

c) Furniture and fixtures

Furniture and fixtures are carried at cost, less accumulated depreciation.

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

Computer equipment and furniture are depreciated over the estimated useful life of the assets using the declining balance method at the following rates per annum:

Computer equipment	30%
Furniture and fixtures	20%

Exploration and Evaluation Assets

All costs directly associated with the exploration and evaluation of oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, asset retirement costs, exploration drillings, sampling and appraisals. When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets can be allocated to CGUs or groups of CGUs for the purposes of assessing such assets for impairment.

Revenue Recognition

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

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

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

New Zealand Energy Corp.
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Production Costs

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

Impairment of Non-financial Assets

Assets that are subject to depreciation are reviewed for impairment at each reporting date to determine whether there is any indication that 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 to sell and value in use. For the purposes of assessing impairment testing, development costs are allocated to CGUs to which the exploration activity relates.

For impairment losses identified based on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in the statement of comprehensive loss.

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

Accounts Payable and Accrued Liabilities

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid. Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions / Restoration Provisions

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

Changes in the liability for an asset retirement obligation due to the passage of time are measured by applying the effective interest rate method. The amount is recognized in the statement of comprehensive loss as an increase in the liability and accretion expense.

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

Share Capital

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.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based Payments

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

Income Taxes

Any income tax on profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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 realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

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

Earnings (Loss) per Share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Segment Reporting

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.

Financial Instruments

a) Financial assets

Loans and receivables are non-derivative 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. Loans and receivables 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 using the effective interest method.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

a) Financial assets (continued)

Loans and receivables are included in cash and cash equivalents and accounts receivable in the consolidated balance sheet.

b) 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 statement of comprehensive loss over the period to maturity using the effective interest method.

c) Impairment of financial assets

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

Objective evidence of impairment may include the following:

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

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

Adoption of New or Revised IFRSs

Effective January 1, 2013, the Company adopted the following new and revised International Financial Reporting Standards ("IFRSs") that were issued by the International Accounting Standards Board ("IASB"). These include:

a) IFRS 10 – Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control (from voting rights of investors or other contractual arrangements) and power over the investee. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

b) IFRS 11 – Joint Arrangements

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method, whereas for a joint operation the venturer will recognize its proportionate share of the assets, liabilities, revenue and expenses of the joint operation. The Company has assessed the application of this standard and has accounted for its interest in joint arrangements as joint operations (see Notes 3 and 4).

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New or Revised IFRSs (continued)

c) IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 *Disclosure of Interests in Other Entities* (“IFRS 12”) establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose entities and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The application of this standard results in additional disclosures being included in the Company’s consolidated financial statements (see Notes 3 and 4).

Future IFRS Not Yet Effective

a) IFRS 32 – Financial Instruments: Presentation

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of “currently has a legally enforceable right of set-off”, the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

3. ACQUISITION OF INTEREST IN UPSTREAM AND MIDSTREAM ASSETS

Terms of the Acquisition

On June 17, 2013, the Company announced that it had finalized a Sale and Purchase Agreement (the “Origin Sale and Purchase Agreement”) with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited (collectively “Origin”) to acquire upstream and midstream assets (the “Acquisition”) for purchase consideration of \$33.7 million. These assets included the Tariki, Waihapa and Ngaere petroleum mining licenses in the main Taranaki Basin production fairway (the “TWN Licenses”) as well as the Waihapa Production Station and associated gathering and sales infrastructure (the “TWN Assets”). The Company agreed to provide Origin with a guarantee for all of the obligations undertaken by the Company’s subsidiaries under the definitive agreements.

As one of the conditions of the Origin Sale and Purchase Agreement, the Company entered into an agreement with Contact Energy Limited (“Contact”), a subsidiary of Origin, which owns and operates the Ahuroa Gas Storage Facility (“AGS”) located in the Contact-owned permit adjacent to the TWN Licenses and the Waihapa Production Station. Of the \$33.7 million purchase consideration, NZ\$4.25 million was paid to Contact. The Company agreed to act as operator of the AGS, for which Contact will pay a monthly operating fee of NZ\$200,000.

In addition to the purchase consideration, the Company agreed to pay a net revenue royalty to Origin at a rate of 9% (“Origin Royalty”) on all hydrocarbons produced in future from the TWN Licenses. The Company can reduce the Origin Royalty at any time by up to 4% by paying Origin NZ\$4.25 million per percentage point. The TWN Licenses are also subject to a “grandfathered” New Zealand Petroleum & Minerals 10% net revenue royalty. The royalty regime allows for the deduction of specified portions of operating costs when calculating royalties payable.

L&M Letter Agreement to Form Joint Arrangement

On July 30, 2013, the Company announced that it had entered into a binding agreement (the “L&M Letter Agreement”) with L&M Energy Limited (“L&M”) to form a 50/50 joint arrangement (the “TWN Joint Arrangement”) to explore, develop and operate the TWN Licenses and the TWN Assets.

Under the terms of the L&M Letter Agreement, L&M contributed \$18.25 million towards the \$33.7 million purchase consideration agreed to under the Origin Sale and Purchase Agreement, in order to obtain a 50% interest in the TWN Joint Arrangement. L&M will also contribute 50% of all future development and operating

New Zealand Energy Corp.
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3. ACQUISITION OF INTEREST IN UPSTREAM AND MIDSTREAM ASSETS (continued)

L&M Letter Agreement to Form Joint Arrangement (continued)

expenditures (including the Origin Royalty). The Company was responsible for funding the \$15.25 million balance of the \$33.7 million purchase consideration agreed to under the Origin Sale and Purchase Agreement. The Company had already paid to Origin a \$5 million deposit (Note 6(b)), and during the year ended December 31, 2013 paid an additional \$1 million deposit as described below and in Note 6(b).

Under the terms of the L&M Letter Agreement, the Company was appointed operator of the TWN Joint Arrangement, and decisions regarding exploration, development and operations of the TWN Joint Arrangement will be made by management committees with equal representation from both the Company and L&M.

Concurrent completion of the Acquisition and the L&M Letter Agreement was subject to the Company placing the remainder of the purchase price into an escrow account (the "Finance Condition Precedent"), Origin and Contact consenting to L&M becoming a party to the definitive agreements, and receiving the relevant government approvals.

In connection with the Acquisition, the Company was required to provide bonds to the Ministry of Energy and Resources for New Zealand in order to secure compliance with the terms and conditions of the TWN Licences. The requisite bonds were provided on behalf of the Company by a chartered financial institution in New Zealand. These bonds were secured by restricted term deposits in the amount of NZ\$375,000 or \$327,525 (2012: \$nil), which were deposited with the before mentioned chartered financial institution.

Closing of Acquisition

On September 30, 2013, the Company deposited \$9,432,780 into an escrow account, \$7,881,990 of which was funded from subscription receipts received until that date (Note 14(a)(iii)). On October 18, 2013, the Company obtained the requisite government approvals and on October 28, 2013, following the completion of an oversubscribed non-brokered private placement (Note 14(a)(iii)), the Company closed the Acquisition obtained joint control of the relevant activities related to the TWN Licenses and the TWN Assets.

In connection with the Acquisition, the Company recorded an additional \$3,928,590 in asset retirement obligations related to the TWN Assets and the TWN Licences. See Notes 10 and 13.

The allocation of the purchase price of the Acquisition is as follows:

Cash	\$ 15,432,780
Fair value of assets and liabilities acquired:	
Land	1,322,751
Production facilities	3,288,803
Oil stock and spares	691,079
Oil and gas properties:	
Waihapa petroleum mining license	4,792,170
Ngaere petroleum mining license	6,656,224
Tariki petroleum mining license	85,339
Ahuroa petroleum mining license	1
Asset retirement cost recognized	3,928,590
Asset retirement obligations assumed	<u>(3,928,590)</u>
	<u>16,836,367</u>
Gain on acquisition	<u>\$ (1,403,587)</u>

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4. JOINT ARRANGEMENTS

On October 28, 2013, the Company obtained joint control of the exploration and development of the TWN Licenses and TWN Assets through participation in a number of joint arrangements, as outlined below. The Company accounts for these joint arrangements as joint operations.

Company	Principal activity	Location	Interest
TWN Limited Partnership	Operate the TWN Assets	New Zealand	50%
Waihapa-Ngaere Joint Arrangement	Operate the Waihapa and Ngaere licenses	New Zealand	50%
Tariki Joint Arrangement	Operate the Tariki license	New Zealand	50%

As at December 31, 2013, the Company was actively exploring the Wairoa, Alton and Manaia permits through participation in joint arrangements. The Company accounts for these joint arrangements as joint operations. Subsequent to period-end the Company, in conjunction with its joint arrangement partner, made the decision to relinquish the Manaia Permit (Note 23(c)).

Company	Principal activity	Location	Interest
Manaia Joint Arrangement	Explore the Manaia permit	New Zealand	60%
Wairoa Joint Arrangement	Explore the Wairoa permit	New Zealand	80%
Alton Joint Arrangement	Explore the Alton permit	New Zealand	65%

5. ACCOUNTS AND OTHER RECEIVABLES

	2013	2012
	\$	\$
Trade receivables	3,840,684	2,320,704
GST Receivable	167,359	1,513,318
Other receivables	1,865,607	263,108
	5,873,650	4,097,130

6. DEPOSITS

	2013	2012
	\$	\$
Short term:		
Term deposit (a)	-	34,837,864
Drilling service deposit - short term (b)	-	995,368
	-	35,833,232
Long term:		
Acquisition deposit	-	5,190,057
Other retainers and deposits	79,341	87,160
	79,341	5,277,217
	79,341	41,110,449

- a) As required under the original terms of a letter agreement with Origin, the Company maintained a deposit in the Company's name with HSBC New Zealand. The deposit served as security for an operating line of credit of up to US\$34.5 million with HSBC New Zealand (Note 12). During the year ended December 31, 2013, the operating line of credit (with a balance of US\$29,660,667 including accrued interest) was settled against the term deposit, which at the time of settlement had a balance of US\$35,760,511 (\$37,469,043), and the Company received the balance of US\$6,099,844 into cash and cash equivalents.

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6. DEPOSITS (continued)

- b) At the time of signing a letter agreement with Origin, the Company paid a deposit of \$5 million to Origin which was to be applied toward the purchase consideration and became non-refundable on July 12, 2013. On August 12, 2013, the Company announced that Origin had agreed to extend the deadline for meeting the Finance Condition Precedent to September 30, 2013, requiring the Company to pay an additional \$1 million non-refundable deposit, which was also attributed to the purchase consideration (Note 3).

7. INVENTORIES

	2013	2012
	\$	\$
Material and supplies	1,920,745	2,687,423
Oil inventories (a)	938,659	289,220
Purchased condensate	261,713	-
	3,121,117	2,976,643

- (a) During the year ended December 31, 2013, \$8,182,357 (December 31, 2012: \$9,192,441) of inventory cost previously capitalized to oil inventories was expensed to the statement of comprehensive loss. This amount comprises \$4,570,294 in production cost, \$3,084,738 in depletion, \$226,463 (December 31, 2012: \$nil) in stock-based compensation and \$300,861 (December 31, 2012: \$nil) in salaries and other costs previously capitalized to inventory.

8. ASSETS HELD FOR SALE

The Company had previously acquired two separate lots of land with buildings that are no longer required by the Company as part of its core business. The Company has committed to disposing of these assets, with such disposal considered to be highly probable. As such, these properties, at a cost of \$720,708 at the time of the reclassification, have been presented as non-current assets held for sale. The estimated fair value less costs to sell of the land and buildings as at December 31, 2013 is \$759,858 (NZ\$870,000) and the Company has recognized a \$275,484 impairment loss against the carrying value of its land and buildings.

New Zealand Energy Corp.
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9. SOFTWARE AND PROPRIETARY DATABASE

Software and proprietary database consists of 2D and 3D seismic models and geological files of the Taranaki and East Coast basins as well as financial and asset management software.

	Software and proprietary database
Cost	\$
Balance, December 31, 2011	349,568
Reclassification	148,225
Additions	124,423
Foreign currency translation adjustment	13,470
Balance, December 31, 2012	635,686
Additions	355,760
Foreign currency translation adjustment	53,459
Balance, December 31, 2013	1,044,905
Accumulated amortization	
Balance, December 31, 2011	64,087
Amortization charge	170,520
Foreign currency translation adjustment	3,478
Balance, December 31, 2012	238,085
Amortization charge	223,534
Foreign currency translation adjustment	24,696
Balance, December 31, 2013	486,315
Net book value	
Balance, December 31, 2012	397,601
Balance, December 31, 2013	558,590

During 2013, \$198,858 (2012: \$170,520) of amortization was capitalized to exploration and evaluation assets.

New Zealand Energy Corp.
Notes to Consolidated Financial Statements
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10. PROPERTY, PLANT AND EQUIPMENT

Cost	Furniture and fixture \$	Plant and equipment \$	Land and building \$	Oil and gas properties \$	Total \$
Balance, December 31, 2011	267,100	-	-	5,557,577	5,824,677
Additions	357,605	-	985,610	6,873,213	8,216,428
Asset retirement obligation recognized	-	-	-	464,424	464,424
Reclassification	(148,225)	-	-	-	(148,225)
Transfer from exploration and evaluation assets	-	-	-	13,756,783	13,756,783
Foreign currency translation adjustment	(3,928)	-	(3,728)	328,347	320,691
Balance, December 31, 2012	472,552	-	981,882	26,980,344	28,434,778
Additions	84,536	1,846,033	-	5,457,838	7,388,407
Acquisition (Note 3)	-	3,288,803	1,322,751	11,533,734	16,145,288
Transferred to assets available (Note 8)	-	-	(720,708)	-	(720,708)
Impairment (Note 8)	-	-	(275,484)	-	(275,484)
Asset retirement obligation recognize as part of Acquisition (Notes 3, 13)	-	2,356,672	-	1,571,918	3,928,590
Reduction in Asset retirement cost due to change in estimate	-	-	-	(131,850)	(131,850)
Foreign currency translation adjustment	23,416	410,042	21,161	1,766,902	2,221,521
Balance, December 31, 2013	580,504	7,901,550	1,329,602	47,178,886	56,990,542
Accumulated depreciation					
Balance, December 31, 2011	17,183	-	-	297,983	315,166
Depreciation and depletion	70,360	9,725	-	4,121,344	4,201,429
Foreign currency translation adjustment	1,017	8	-	49,400	50,425
Balance, December 31, 2012	88,560	9,733	-	4,468,727	4,567,020
Depreciation and depletion	128,019	108,723	-	2,461,889	2,698,631
Foreign currency translation adjustment	8,145	7,442	-	539,306	554,893
Balance, December 31, 2013	224,724	125,898	-	7,469,922	7,820,544
Net book value					
Balance, December 31, 2012	383,992	(9,733)	981,882	22,511,617	23,867,758
Balance, December 31, 2013	355,780	7,775,652	1,329,602	39,708,964	49,169,998

Comparative figures have been reclassified in order to conform to the presentation of the current year.

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Notes to Consolidated Financial Statements
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11. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand	East Coast Basin, New Zealand	Total
	\$	\$	\$
Balance, December 31, 2011	2,477,835	3,574,864	6,052,699
Additions	39,615,549	5,444,247	45,059,796
Recoveries	(2,449,231)	-	(2,449,231)
Asset retirement obligation recognized	1,663,474	328,929	1,992,403
Transfer to property, plant and equipment	(13,756,783)	-	(13,756,783)
Foreign currency translation adjustment	311,499	169,343	480,842
Balance, December 31, 2012	27,862,343	9,517,383	37,379,726
Additions	12,701,648	4,449,678	17,151,326
Asset retirement obligation recognized	478,851	(27,249)	451,602
Impairment	-	(6,708,960)	(6,708,960)
Foreign currency translation adjustment	2,423,599	802,744	3,226,343
Balance, December 31, 2013	43,466,442	8,033,595	51,500,037

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 exploration permits granted by the New Zealand government. The Company is satisfied that evidence supporting the current validity of these permits is adequate and acceptable by prevailing industry practices in respect to the current stage of exploration on these properties.

During 2013, the Company made the decision to focus its East Coast exploration efforts on the Wairoa, Castlepoint and East Cape permits, and subsequently relinquished the Ranui Permit. As a result, the Company wrote off \$6,708,960 of exploration and evaluation assets previously capitalized to the permit.

Subsequent to year-end the Company, in conjunction with its joint arrangement partner, decided to relinquish its interest in the Manaia Permit (Note 23(c)). As at December 31, 2013, a total cost of \$286,800 had been capitalized in exploration and evaluation assets with respect to the Manaia Permit.

12. OPERATING LINE OF CREDIT

During 2012, the Company secured an operating line of credit against its deposit with HSBC New Zealand. The operating line of credit was limited to an amount of US\$34.5 million and bore interest at LIBOR plus 0.3% with an initial maturity date of May 16, 2013, which was later extended to December 31, 2013.

During the year ended December 31, 2013, the Company settled the outstanding balance of the operating line of credit, including accrued interest, of US\$29,660,667 (December 31, 2012: \$10,451,359).

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13. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim the wells and 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 \$17,520,056.

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

Balance, December 31, 2011	154,914
Liabilities recognized during the year	2,456,827
Abandonment costs incurred during the year	(35,961)
Accretion expense for the year	8,442
Foreign currency translation adjustment	14,618
Balance, December 31, 2012	2,598,840
Liabilities recognized during the year	816,336
Liabilities recognized related to the Acquisition (Notes 3 and 10)	3,928,590
Change in estimate	(496,584)
Accretion expense for the year	161,160
Foreign currency translation adjustment	408,683
Reclassified as current	(348,440)
Balance, December 31, 2013	7,068,585

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

	2013	2012
Total undiscounted value of payments	\$17,520,056	\$3,441,968
Discount rate	3.01% to 4.60%	2.55% to 3.56%
Expected life	1 to 25 years	2 to 10 years

14. 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 March 24, 2012, the Company closed a bought deal financing of 21,160,000 common shares at a price of \$3.00 per common share for gross proceeds of \$63,480,000. The Company recorded transaction fees of \$4,154,795, which include a finder's fee of \$3,808,800 to its agent.
- iii) On October 29, 2013, the Company announced that it had completed an oversubscribed non-brokered private placement with total gross proceeds of \$16,138,437, and had issued 48,904,354 subscription receipts at a price of \$0.33 per subscription receipt. On November 21, 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 October 28, 2014. Shares related to the private placement became free trading on November 21, 2013. The Company paid a total finders' fee of \$1,210,947, of which \$1,005,130 related to a 7% cash commission to qualified persons and \$205,817 related to the issuance of 3,045,849 advisor warrants (equal to 7% of the number of subscriptions receipts issued to qualified persons). Each advisor warrant entitles the holder to acquire one common share of the Company at a price of \$0.33 per share with an expiry date of October 28, 2014 (see Note 14(d)).

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14. SHARE CAPITAL (continued)

b) Escrowed shares

In accordance with a lock-up agreement, an escrow agreement and a pooling agreement, 46,394,334 common shares owned or controlled by certain directors and officers of the Company were escrowed at August 3, 2011. The shares will be released over 36 months from August 3, 2011 as follows:

Release Date	Number of Common Shares
August 3, 2011	200,000 (released)
February 3, 2012	300,000 (released)
July 19, 2012	5,853,934 (released)
August 3, 2012	6,773,400 (released)
February 3, 2013	8,851,200 (released)
August 3, 2013	8,851,200 (released)
February 3, 2014	8,851,200 (released)
August 3, 2014	6,713,400
Total	<u>46,394,334</u>

c) 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 17,087,346 options, based on the total issued and outstanding common shares as at December 31, 2013. 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.

Details of the Company's share purchase option activity are as follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
		\$
Outstanding at December 31, 2011	5,298,000	1.00
Granted	3,986,000	1.85
Forfeited	(100,000)	1.00
Outstanding at December 31, 2012	9,184,000	1.37
Granted	1,093,200	0.95
Forfeited	(1,402,500)	1.47
Outstanding at December 31, 2013	<u>8,874,700</u>	<u>1.30</u>

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14. SHARE CAPITAL (continued)

c) Share purchase options (continued)

The following table summarises information about share options outstanding and exercisable at December 31, 2013:

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	296,000	4.84	10,500	4.85
\$1.00 to \$1.49	5,970,700	2.42	5,298,300	2.31
\$1.50 to \$1.99	1,229,000	2.93	774,500	2.56
\$2.00 to \$2.49	1,078,000	3.73	539,000	3.73
\$2.50 to \$3.00	301,000	3.26	225,750	3.26
	8,874,700	2.76	6,848,050	2.49

The following table summarises information about share options outstanding and exercisable at December 31, 2012:

Range of exercise price	Options Outstanding		Options Exercisable	
	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
\$1.00 to \$1.49	5,721,000	3.46	2,754,750	3.32
\$1.50 to \$1.99	1,949,000	4.56	-	-
\$2.00 to \$2.49	1,213,000	4.72	-	-
\$2.50 to \$3.00	301,000	4.26	75,250	4.26
	9,184,000	3.88	2,830,000	3.34

The total expense relating to share purchase options incurred for the year ended December 31, 2013 was \$3,007,440. Of that amount, \$685,257 has been expensed in the statement of comprehensive loss, of which \$226,463 relates to production cost previously recognized in oil inventory (Note 7(a)). As at December 31, 2013, \$48,417 of share-based compensation has been capitalized to oil inventories, while \$271,658 and \$2,002,108 has been capitalized to property plant and equipment and exploration and evaluation assets, respectively.

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

	2013	2012
Risk-free interest rate	1.42%	1.23%
Expected volatility	114.20%	118.28%
Expected life	5 years	5 years
Expected dividend yield	Nil%	Nil%

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.

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14. SHARE CAPITAL (continued)

c) Share purchase options (continued)

Subsequent to the year ended December 31, 2013, the Company granted 2,222,000 share purchase options with an exercise price of \$0.45 to various directors, officers and employees. In addition, the Company also 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 vesting provisions related to the option grants remain unchanged. The amendment to the exercise price for options granted to officers of the Company is subject to shareholder approval. Stock options granted to directors at \$1.00 per share are not being re-priced (Note 23 (a)).

d) Warrants

Warrants issued in unit issuance

On October 28, 2013, the Company completed an oversubscribed private placement, issuing 48,904,354 subscription receipts at a price of \$0.33 per subscription receipt. On November 21, 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 October 28, 2014. All outstanding warrants are exercisable at December 31, 2013.

Details of the Company's warrant activity are as follows:

	Number of warrants	Weighted average exercise price
		\$
Outstanding at December 31, 2011 and 2012	-	-
Warrants issued from private placement	24,452,177	0.45
Outstanding at December 31, 2013	24,452,177	0.45

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

	2013	2012
Risk-free interest rate	1.09%	n/a
Expected volatility	70.16%	n/a
Expected life	1 year	n/a
Expected dividend yield	Nil%	n/a

Advisor warrants

The Company granted 657,315 warrants to advisors in connection with the initial public offering to purchase common shares. On January 16, 2013, 200,000 of these warrants were exercised for the price of \$1.00 per share. The Company reallocated \$60,356 from contributed surplus to share capital as a result of the exercise of 200,000 advisor warrants. The remainder of the outstanding warrants expired on February 3, 2013.

On October 28, 2013, the Company granted 3,045,849 advisor warrants to advisors in connection to a private placement. Each advisor warrant entitles the holder to acquire one common share of the Company at a price of \$0.33 per share with an expiry date of October 28, 2014. All advisor warrants were exercisable at December 31, 2013.

New Zealand Energy Corp.
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14. SHARE CAPITAL (continued)

d) Warrants (continued)

Advisor warrants (continued)

Details of the Company's advisor warrant activity are as follows:

	Number of warrants	Weighted average exercise price
		\$
Outstanding at December 31, 2011 and 2012	657,315	1.00
Exercised	(200,000)	1.00
Expired	(457,315)	1.00
Advisor warrants issued	3,045,849	0.33
Outstanding at December 31, 2013	3,045,849	0.33

During the year ended December 31, 2013, the Company recorded share issuance costs of \$205,817 as a result of the issuance of 3,045,849 advisor warrants to its agents in connect with a private placement.

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

	2013	2012
Risk-free interest rate	1.09%	n/a
Expected volatility	70.16%	n/a
Expected life	1 year	n/a
Expected dividend yield	Nil%	n/a

15. REVENUES

	2013	2012
	\$	\$
Oil sales	8,489,319	17,295,853
Purchased oil sold (a)	664,168	-
Purchased condensate sold (b)	1,506,068	-
Processing revenue (c)	468,671	-
Royalties	(465,347)	(819,882)
	10,662,879	16,475,971

- a) The Company has an arrangement with L&M to acquire 50% of the crude oil production arising from the TWN Licenses. The Company subsequently sells the purchased oil to a major oil company. The Company records the cost of the purchased oil from L&M at the time of delivery immediately before the Company's point of delivery to the oil company.
- b) The Company also has an arrangement with a third party whereby the Company purchases condensate (hydrocarbon) for its operational purposes and subsequently sells the condensate to the same major oil company to which the Company sells its oil. Any unsold condensate is carried as inventory.
- c) As part of its operations of the TWN Assets, the TWN Joint Arrangement provides a wide range of services to third parties, including oil handling and pipeline throughput services, gas processing, as well as handling and disposal of produced water. The Company also operates the nearby AGS on behalf of Contact, for which the TWN Joint Arrangement receives a monthly operating fee of NZ\$200,000 (Note 3).

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16. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
	\$	\$
Professional fees	941,042	1,134,868
Management fees	1,046,876	1,726,023
Consulting fees	1,072,959	713,581
Travel and promotion	554,804	919,860
Administrative expenses	1,540,797	555,781
Rent	216,512	141,803
Filing and transfer agent fees	139,246	170,498
Insurance	291,590	83,475
General exploration	-	55,746
Salary and wages	1,393,198	395,314
	7,197,024	5,896,949

17. INCOME TAXES

A reconciliation of the income tax benefit determined by applying the Canadian income tax rates to the consolidated loss for the years ended December 31, 2013 and December 31, 2012 has been prepared as follows:

	2013	2012
	\$	\$
Loss before income taxes	15,107,591	3,081,173
Statutory tax rate	26.0%	25.0%
Income tax (recovery) at statutory rates	(3,927,974)	(770,293)
Permanent difference - Stock-based compensation	65,055	525,583
Effect of tax rates in other jurisdictions	(227,585)	125,973
Change in statutory tax rate	(12,336)	-
Effect of changes in foreign exchange rates	525,059	(279,750)
Adjustments to return	(149,744)	-
Change in unrecognized tax assets	4,521,502	392,830
Other	(793,977)	5,657
	-	-

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

	2013	2012
	\$	\$
Deferred income tax assets		
Accounts payable	448,029	131,679
Employee benefits	107,153	40,074
Non-capital losses available for future periods	18,337,926	11,263,016
Environmental liabilities	2,108,904	725,329
Share issue costs	1,076,605	1,354,458
	22,078,617	13,514,556
Unrecognized deferred tax assets	(8,623,366)	(4,046,987)
Deferred tax assets	13,455,251	9,467,569
Deferred income tax liability		
Property, plant and equipment	(871,460)	(93,761)
Net investment in subsidiaries	(1,456,523)	(451,191)
Resources property	(11,127,268)	(8,922,617)
	(13,455,251)	(9,467,569)
Net deferred income tax asset	-	-

New Zealand Energy Corp.
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17. INCOME TAXES (continued)

The above losses available for future years have been determined by applying a Canadian income tax rate of 25.5% (2012: 25.0%) and a New Zealand tax rate of 28% (2012: 28%). These tax benefits have not been recognized in the consolidated financial statements as the benefits are not, more likely than not, going to be realized.

The Company has operating losses available in Canada to reduce future taxable income of \$13,251,781, which will expire between 2030 and 2033. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ\$63,658,133.

18. 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:

	2013	2012
	\$	\$
Salary and management fees	3,448,410	2,245,927
Share-based compensation	883,645	2,507,745
	4,332,055	4,753,672

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 amounts above are \$1,097,000 (2012: \$1,068,650) management fees paid to J. Proust and Associates Inc., an entity with officers in common.

19. SEGMENTED DISCLOSURES

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

The breakdown by geographic area as at December 31, 2013 is as follows:

	Canada	Singapore	New Zealand	Consolidated
	\$	\$	\$	\$
Non-current assets	798,647	-	100,836,843	101,635,490
Current assets	3,495,685	7,692	11,643,820	15,147,197
Total assets	<u>4,294,332</u>	<u>7,692</u>	<u>112,480,663</u>	<u>116,782,687</u>
Total liabilities	<u>346,701</u>	<u>-</u>	<u>14,990,929</u>	<u>15,337,630</u>
Revenues	<u>-</u>	<u>-</u>	<u>10,662,879</u>	<u>10,662,879</u>

The breakdown by geographic area as at December 31, 2012 is as follows:

	Canada	Singapore	New Zealand	Consolidated
	\$	\$	\$	\$
Non-current assets	631,689	-	66,290,614	66,922,303
Current assets	274,942	13,355	48,849,339	49,137,636
Total assets	<u>906,631</u>	<u>13,355</u>	<u>115,139,953</u>	<u>116,059,939</u>
Total liabilities	<u>573,369</u>	<u>-</u>	<u>22,869,263</u>	<u>23,442,632</u>
Revenues	<u>-</u>	<u>-</u>	<u>16,475,971</u>	<u>16,475,971</u>

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20. COMMITMENTS

As at December 31, 2013, the Company had the following undiscounted contractual obligations:

	2014	2015 to 2016	2017 and onwards	Total
	\$	\$	\$	\$
Accounts payable	7,920,605	-	-	7,920,605
Operating lease obligations ⁽¹⁾	210,459	439,022	147,849	797,330
Contract and purchase commitments ⁽²⁾	2,980,975	478,679	1,134,002	4,593,656
Environmental obligations ⁽³⁾	359,725	1,096,720	16,063,610	17,520,055
Minimum work program requirements ⁽⁴⁾	33,717,000	35,962,975	10,279,100	79,959,075
Total	45,188,764	37,977,396	27,624,561	110,790,721

- (1) The Company has office leases for its offices in Vancouver, Wellington and New Plymouth.
- (2) The Company entered into several management and consulting agreements, some of which relate to services to be rendered in connection with exploration work programs commitments.
- (3) The Company has recognized an undiscounted asset retirement obligation of \$17.52 million. See Note 13.
- (4) The Company also has various ongoing minimum work program commitments which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets. Only \$320,000 of the minimum work program requirements which are due to be incurred during 2014 relate to permits associated with the Company's producing oil and gas properties, while the balance of the minimum work program requirements for 2014 (\$33,397,000) relates to exploration permits. To the extent that the Company elects not to carry out the minimum work program commitments pertaining to a specific permit, the Company will relinquish its interest in the relevant permit (Note 23(c)). The minimum work program commitments relate to the following permits:

Permit	Type	2014	2015 to 2016	2017 and onwards	Total
		\$	\$	\$	\$
<i>Taranaki Basin</i>					
Eltham Permit	Producing and Exploration	320,000	200,000	4,500,000	5,020,000
Alton Permit	Exploration	2,569,000	2,321,000	-	4,890,000
Manaia Permit	Exploration	1,743,000	5,100,000	102,000	6,945,000
		4,632,000	7,621,000	4,602,000	16,855,000
<i>East Coast Basin</i>					
Castlepoint Permit	Exploration	21,250,000	15,725,000	-	36,975,000
Wairoa Permit	Exploration	7,750,000	4,420,000	-	12,170,000
East Cape Permit	Exploration	85,000	8,196,975	5,677,100	13,959,075
		29,085,000	28,341,975	5,677,100	63,104,075
Total		33,717,000	35,962,975	10,279,100	79,959,075

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20. COMMITMENTS (continued)

At December 31 2013, the Company had \$4,902,888 in cash and cash equivalents (December 31, 2012: \$5,983,121) and \$6,878,152 in working capital (December 31, 2012: \$28,293,845). In October 2013 the Company completed an oversubscribed private placement (Note 14(a)(iii)). Based on available working capital as well as forecasted positive net cash flow from operations, management has estimated that the Company has sufficient working capital to meet short-term operating requirements. However, since these estimates rely on certain development activities which are still underway as at the date of this report, there are no assurances that these activities will be successful, or that the Company will be able to attain sufficiently profitable operations from those activities. In light of the reliance on successful completion of ongoing development activities, there is significant doubt about the Company's ability to continue as a going concern (Note 1).

The Company is considering a number of options to increase its financial capacity (including increasing cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives) in order to meet all required and planned capital expenditures for the next 12 months.

21. CAPITAL RISK MANAGEMENT

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

22. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

Cash and cash equivalents consist of cash deposits that are primarily held with a Canadian chartered bank or its New Zealand subsidiaries.

All of the Company's production is sold directly to a major oil company. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition. Trade receivables reported in the Company's balance sheet are aged at or under 30 days and are exposed to the risk of provisional pricing adjustment due to near-term price movements of oil.

The carrying value of the Company's cash and cash equivalents and trade receivables represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at December 31, 2013.

Liquidity Risk

At December 31 2013, the Company had \$4,902,888 in cash and cash equivalents (December 31, 2012: \$5,983,121) and \$6,878,152 in working capital (December 31, 2012: \$28,293,845). As disclosed in Note 20, the Company has various ongoing minimum work program commitments which are associated with the Company's

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22. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

interest in its oil and gas properties and exploration and evaluation assets. Only \$320,000 of the minimum work program requirements which are due to be incurred during 2014 relate to permits associated with the Company's producing oil and gas properties, while the balance of the minimum work program requirements for 2014 (\$33,397,000) relates to exploration permits. To the extent that the Company elect not to carry out the minimum work program commitments pertaining to a specific permit, the Company stands to forfeit its interest in the relevant permit (Note 23(c)).

Based on available working capital as well as forecast positive net cash flow from operations, management has estimated that the Company has sufficient working capital to meet short-term operating requirements. However, since these estimates rely on certain development activities which were not fully operational as at the date of this report, there are no assurances that these activities will be successful, or that the Company will be able to attain sufficiently profitable operations from those activities. In light of the reliance on successful completion of ongoing development activities, there is substantial doubt about the Company's ability to continue as a going concern (Note 1).

The following are the expected maturities of financial liabilities and obligations at December 31, 2013:

	Less than 1 year	2 – 5 years	Thereafter	Total
	\$			\$
Accounts payable and accrued liabilities	7,920,605	-	-	7,920,605
Asset retirement obligations	359,725	1,096,720	16,022,216	17,478,661
Total	8,280,330	1,096,720	16,022,216	25,399,266

The following are the contractual maturities of financial liabilities at December 31, 2012:

	Less than 1 year	2 – 5 years	Thereafter	Total
	\$			\$
Accounts payable and accrued liabilities	10,392,433	-	-	10,392,433
Asset retirement obligations	-	3,442,000	-	3,442,000
Operating line of credit	10,451,359	-	-	10,451,359
Total	20,843,792	3,442,000	-	24,285,792

Foreign Exchange Risk

The Company operates internationally with offices and operations in Canada, Singapore and New Zealand. All of the Company's petroleum sales are denominated in United States dollars and 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.

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22. FINANCIAL RISK MANAGEMENT (continued)

Foreign Exchange Risk (continued)

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are as follows:

December 31, 2013

	Foreign currency amount		Functional currency amount
	United States Dollars	New Zealand Dollars	Canadian Dollars
New Zealand Energy Corp.			
Cash and cash equivalents	32,036	-	34,116

	Foreign currency amount		Functional currency amount
	Canadian Dollars	New Zealand Dollars	United States Dollars
NZ Holdings Pte. Ltd.			
Cash and cash equivalents	-	5,104	4,186

	Foreign currency amount		Functional currency amount
	United States Dollars	Canadian Dollars	New Zealand Dollars
New Zealand subsidiaries			
Cash and cash equivalents	91,338	14,893	124,354
Accounts receivable	3,606,743	-	4,397,394
Accounts payable	690,713	-	842,025

December 31, 2012

	Foreign currency amount		Functional currency amount
	United States Dollars	New Zealand Dollars	Canadian Dollars
New Zealand Energy Corp.			
Cash and cash equivalents	64,821	-	65,121

	Foreign currency amount		Functional currency amount
	Canadian Dollars	New Zealand Dollars	United States Dollars
NZ Holdings Pte. Ltd.			
Cash and cash equivalents	-	5,104	4,187

	Foreign currency amount		Functional currency amount
	United States Dollars	Canadian Dollars	New Zealand Dollars
New Zealand subsidiaries			
Cash and cash equivalents	1,246,641	-	1,519,738
Term deposit	35,000,000	-	42,667,317
Trade receivables	2,432,179	-	2,964,988
Accounts payable	2,331,505	-	2,842,258
Operating line of credit	10,500,000	-	12,800,195

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22. FINANCIAL RISK MANAGEMENT (continued)

Foreign Exchange Risk (continued)

A 10% increase or decrease in the Canadian dollar/United States dollar foreign exchange rate would result in an additional foreign exchange gain or loss at December 31, 2013 of approximately \$3,412 (\$6,512 at December 31, 2012) being recognized in the statement of comprehensive loss. A 10% increase or decrease in the New Zealand dollar/United States dollar foreign exchange rate would result in an additional foreign exchange gain or loss at December 31, 2013 of approximately \$95,756 (\$5,126,750 at December 31, 2012) being recognized in the statement of comprehensive loss.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and cash equivalents that bear a variable rate of interest. Sensitivity to a 1% change (plus or minus) in interest rate would affect the reported loss by approximately \$nil (\$9,362 at December 31, 2012).

Price Risk

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

Fair Value

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

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the assets or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the assets of liability.

The Company's financial instruments recognized at fair value consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities have been classified as Level 1 on the fair value hierarchy.

The carrying value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

23. SUBSEQUENT EVENTS

- a) Subsequent to the year ended December 31, 2013, the Company granted 2,222,000 share purchase options with an exercise price of \$0.45 to various directors, officers and employees. In addition, the Company also 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 vesting provisions related to the option grants remain unchanged. The amendment to the exercise price for options granted to officers of the Company is subject to shareholder approval. Stock options granted to directors at \$1.00 per share are not being re-priced.

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23. SUBSEQUENT EVENTS (continued)

- b) During February 2014, the TWN Joint Arrangement entered into an agreement with a gas marketing counterparty to transport gas along a section of the TWN Joint Arrangement's gas pipeline for a term of four years with a five-year right of renewal.
- c) During April 2014, the Company, in conjunction with its joint arrangement partner, decided to relinquish its interest in the Manaia Permit. As at December 31, 2013, a total cost of \$286,800 had been capitalized in exploration and evaluation assets with respect to the Manaia Permit.