NEW ZEALAND ENERGY CORP.

Third Quarter 2013
Condensed Consolidated Interim Financial Statements

September 30, 2013

(Expressed in Canadian Dollars)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Expressed in Canadian Dollars)
(Unaudited)

	September 30, 2013 $	December 31, 2012 $
Assets		
Current		
Cash and cash equivalents	2,003,921	5,983,121
Accounts and other receivables (Note 4)	1,288,416	4,097,130
Deposit – short term (Note 5(a))	-	35,833,232
Prepaid expenses	311,821	247,511
Inventories (Note 6)	2,056,779	2,976,643
Assets held for sale (Note 7)	742,197	
	6,403,134	**49,137,637**
Deposit – long term (Note 5)	6,548,139	5,277,217
Restricted cash (Note 2)	9,432,780	-
Proprietary database	387,037	397,601
Deferred financing costs (Note 12(a))	62,048	-
Property, plant and equipment (Note 8)	26,621,043	23,867,758
Exploration and evaluation assets (Note 9)	55,859,632	37,379,726
	105,313,813	**116,059,939**
Liabilities		
Current		
Accounts payable and accrued liabilities	1,654,337	10,392,433
Operating line of credit (Note 10)	-	10,451,359
	1,654,337	**20,843,792**
Share subscriptions received (Note 12(a))	7,881,990	-
Asset retirement obligations (Note 11)	3,212,926	2,598,840
	12,749,253	**23,442,632**
Shareholders' equity		
Share capital (Note 12)	93,413,473	93,153,117
Foreign currency translation reserve	5,723,901	1,762,786
Contributed surplus	20,720,133	17,693,647
Accumulated deficit	(27,292,947)	(19,992,243)
	92,564,560	**92,617,307**
	105,313,813	**116,059,939**

Commitments (Note 15)
Subsequent events (Note 16)

These consolidated financial statements are authorized for issuance by the Board of Directors on November 25, 2013.

On behalf of the Board of Directors

"John G. Proust"	*"John A. Greig"*
John G. Proust, Director	John A. Greig, Director

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)
(Unaudited)

	Number of Shares	Share Capital $	Contributed Surplus (stock-based payment) $	Contributed Surplus (advisors 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
Stock-based compensation (Note 12(c))	-	-	3,086,842	-	-	-	3,086,842
Advisor warrants exercised (Note 12(d))	200,000	260,356	-	(60,356)	-	-	200,000
Net loss for the period	-	-	-	-	-	(7,300,704)	(7,300,704)
Other comprehensive income for the period	-	-	-	-	3,961,115	-	3,961,115
Balance, September 30, 2013	**121,969,105**	**93,413,473**	**20,557,026**	**163,107**	**5,723,901**	**(27,292,947)**	**92,564,560**
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 12(a))	21,160,000	63,480,000	-	-	-	-	63,480,000
Share issue costs	-	(4,154,795)	-	-	-	-	(4,154,795)
Stock-based compensation	-	-	3,170,776	-	-	-	3,170,776
Net income for the period	-	-	-	-	-	(892,975)	(892,975)
Other comprehensive income for the period	-	-	-	-	991,288	-	991,288
Balance, September 30, 2012	**121,769,105**	**93,153,117**	**15,882,794**	**223,463**	**908,393**	**(17,804,045)**	**92,363,722**

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended September 30, 2013 $	Three Months Ended September 30, 2012 $	Nine Months Ended September 30, 2013 $	Nine Months Ended September 30, 2012 $
Revenue				
Oil sales	1,594,302	3,892,223	6,872,180	14,186,648
Royalties	(75,292)	(183,969)	(318,212)	(658,718)
	1,519,010	3,708,254	6,553,968	13,527,930
Expenses and other items				
Production costs	656,264	1,256,361	3,964,141	3,333,122
Depreciation	537,263	777,290	2,403,543	3,219,570
Stock-based compensation (Note 12(c))	531,554	329,981	1,312,011	1,377,086
General and administrative (Note 14)	1,132,267	1,004,070	4,340,863	3,272,823
Net finance expense (income)	27,220	(41,377)	66,794	(200,003)
Foreign exchange (gain) loss	174,440	1,085,551	(146,902)	1,730,699
Impairment – assets held for sale (Note 7)	275,484	-	275,484	-
Transaction costs (Note 2)	861,413	282,658	1,638,738	483,437
	4,195,905	4,694,534	13,854,672	13,216,734
Net (loss) income before taxes	**(2,676,895)**	**(986,280)**	**(7,300,704)**	**311,169**
Deferred income taxes	-	(1,204,171)	-	(1,204,171)
Net loss for the period	(2,676,895)	(2,190,451)	(7,300,704)	(892,975)
Other comprehensive income that may subsequently be reclassified to profit or loss				
Exchange difference on translation of foreign currency	4,024,683	171,817	3,961,115	991,288
Total comprehensive income (loss) for the period	**1,347,788**	**(2,018,634)**	**(3,339,589)**	**98,313**
Basic and diluted (loss) earnings per share	**(0.02)**	**(0.02)**	**(0.06)**	**(0.01)**
Weighted average and diluted weighted shares outstanding	121,969,105	121,769,105	121,957,383	115,513,777

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Canadian Dollars)
(Unaudited)

	September 30, 2013 $	September 30, 2012 $
Operating activities		
Net loss for the period	(7,300,704)	(892,975)
Stock-based compensation	1,312,011	1,377,086
Depreciation and accretion	2,486,306	3,219,570
Foreign exchange loss	344,051	1,609,314
Deferred Income taxes	-	1,204,171
Impairment loss	275,484	-
Change in non-cash working capital items		
Accounts and other receivables	2,740,051	(600,439)
Prepaid expenses	(61,600)	(13,224)
Inventories	986,163	(2,573,168)
Due to related parties	-	(42,676)
Accounts payable and accrued liabilities	(1,886,241)	1,372,697
Cash (used in) provided by operating activities	**(1,104,479)**	**4,660,356**
Investing activities		
Expenditures on resource properties	(21,362,049)	(24,559,102)
Restricted cash deposited	(9,432,780)	-
Term deposit	37,551,728	-
Purchase of proprietary database	(137,759)	(135,951)
Purchase of property and equipment	(4,860,420)	(4,723,271)
Abandonment costs	-	(21,803)
Deposit (Note 5)	(1,000,000)	(6,087,795)
Cash provided by (used in) investing activities	**758,718**	**(35,527,922)**
Financing activities		
Shares issued (net of share issuance cost)	200,000	59,325,205
Share subscription received	7,881,990	-
Operating line of credit	(11,643,093)	-
Cash (used in) provided by financing activities	**(3,561,103)**	**59,325,205**
Net (decrease) increase in cash and cash equivalents during the period	**(3,906,864)**	**28,457,639**
Effect of exchange rate changes on cash	(72,336)	(994,306)
Cash and equivalents, beginning of the period	**5,983,121**	**16,144,609**
Cash and equivalents, end of the period	**2,003,921**	**43,607,942**
Supplemental cash flow disclosures		
(Decrease) in accounts payable related to exploration and evaluation assets during the period ended September 30	(7,035,539)	2,554,010

See accompanying notes to the condensed consolidated interim financial statements.

1. GENERAL INFORMATION

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.

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".

2. ACQUISITION OF INTEREST IN UPSTREAM AND MIDSTREAM ASSETS

Original Terms of the Acquisition

On May 31, 2012, the Company announced that it had entered into an agreement (the "Origin Letter 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"), subject to finalization of a number of definitive agreements and conditions precedent. These assets included the Tariki, Ahuroa, Waihapa and Ngaere petroleum mining licences in the main Taranaki Basin production fairway (the "Petroleum Licences") as well as the Waihapa Production Station and associated gathering and sales infrastructure.

Under the terms of the Origin Letter Agreement, the Company had agreed to pay consideration to Origin in the amount of $42 million in cash, payable in the US$ equivalent of US$40.7 million, and such other adjustments as may have been required at closing. The Company also agreed to a 5% net revenue royalty payable to Origin on all future hydrocarbons produced from the Petroleum Licences. The Company would be responsible for the costs associated with drilling a well to the Tikorangi formation, with Origin retaining a 50% interest in production from such well. Origin would also retain the option to use up to eight wells within the Petroleum Licences for the purpose of gas storage.

A $5 million deposit (Note 5(b)) was paid in June 2012 with regard to the Acquisition, and the balance of the purchase consideration of US$35.7 million was placed on deposit in the Company's name with the Hong Kong Shanghai Banking Corporation ("HSBC") in New Zealand (Note 5(a)).

Revised Terms of the Acquisition

On June 17, 2013, the Company announced that it had finalized the Sale and Purchase Agreement with Origin (the "Origin Sale and Purchase Agreement") and a number of definitive agreements, which replaced the previously agreed Origin Letter Agreement. The Company agreed to provide Origin with a guarantee for all of the obligations undertaken by the Company's subsidiaries under the definitive agreements.

The Company also announced that negotiations with Origin had resulted in revisions to the terms of the Acquisition, reducing the purchase consideration and simplifying the transaction. Under the terms of the revised agreement, the purchase consideration was reduced to $33.7 million, with no additional adjustments. NZEC agreed to transfer the Ahuroa petroleum mining licence to Contact upon closing of the Acquisition, resulting in NZEC purchasing three (net) petroleum licences – the Tariki, Waihapa and Ngaere Licences (the "TWN Licences") – as well as the Waihapa Production Station and associated gathering and sales infrastructure (the "TWN Assets").

As one of the conditions precedent to the Origin Letter Agreement, NZEC 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 Licences and the Waihapa Production Station. Of the $33.7 million purchase consideration, NZ$4.25 was paid to Contact and the Company

2. ACQUISITION OF INTEREST IN UPSTREAM AND MIDSTREAM ASSETS (continued)

Revised Terms of the Acquisition (continued)

transferred ownership of the Ahuroa Licence (3,857 acres, 15.6 km^2) to Contact upon closing of the Acquisition, retaining the three TWN Licences. In exchange for transfer of the Ahuroa Licence to Contact, the Company received a compressor capable of handling 10 million cubic feet per day (“MMcf/d”) of natural gas. The Company will also act as operator of the AGS, for which Contact will pay NZEC a monthly operating fee of NZ$200,000.

In addition to the reduced purchase consideration, the Company agreed to pay a net revenue royalty to Origin at an increased rate of 9% (“Origin Royalty”) on all hydrocarbons produced in future from the TWN Licences. The Company can reduce the Origin Royalty at any time by up to 4% by paying Origin $4.25 million per percentage point. The TWN Licences 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.

Other than the Origin Royalty, Origin has relinquished all other rights and encumbrances on the TWN Licences; the Company will no longer have to provide to Origin a 50% interest in a Tikorangi well, nor will Origin have the option to use wells for gas storage.

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 to explore, develop and operate the TWN Licences and the TWN Assets. Once the joint arrangement is completed, the Company and L&M will each own 50% of the TWN Licences and will also hold a 50% interest in the TWN Assets (the “TWN Joint Arrangement”) (Note 16(b)).

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 expenditures. The Company was to be 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 5(b)), and during the period ended September 30, 2013 paid an addition $1 million deposit as described below and in Notes 5(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.

Closing of Acquisition

On August 12, 2013, the Company announced that Origin had agreed to extend the deadline for meeting the Finance Condition Precedent and to extend the deadline for obtaining the requisite government approvals. In exchange, the Company increased its Acquisition deposit (Note 5(b)) to $6 million. The additional $1 million was remitted to Origin on August 13, 2013.

On September 30, 2013, the Company announced that it had met the Finance Condition Precedent and 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 12(a)). 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 (Notes 12(a), 12(c) and 16), the Company closed of the Acquisition. On this date, the Company took over joint control of the relevant activities related to the TWN Licences and the TWN Assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended December 31, 2012, other than the following new standards that were adopted by the Company effective January 1, 2013:

a) IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), which replaces 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 power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

b) IFRS 11 – Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements* ("IFRS 11"), which 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 share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

c) IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"), which establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles 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 Company has determined that there is no impact on its consolidated interim financial statements arising from this standard; however, additional disclosures may be included in the Company's annual consolidated financial statements.

These condensed consolidated interim financial statements were approved for issuance by the Company's Board of Directors on November 25, 2013.

(Expressed in Canadian Dollars)

4. ACCOUNTS AND OTHER RECEIVABLES

	September 30, 2013 $	December 31, 2012 $
Trade receivables	882,514	2,320,704
Other receivables	405,902	1,776,426
	1,288,416	**4,097,130**

5. DEPOSIT

	September 30, 2013 $	December 31, 2012 $
Short term:		
Term deposit (a)	-	34,837,864
Drilling service deposit-short term	-	995,368
	-	35,833,232
Long term:		
Acquisition deposit (b)	6,458,798	5,190,059
Other retainers and deposit	89,341	87,158
	6,548,139	5,277,217
	6,548,139	**41,110,449**

a) As required under the original terms of the Origin Letter Agreement, the Company maintained a deposit of US$35,759,159 ($37,469,043) in the Company's name with HSBC (Note 2). The deposit served as security for an operating line of credit of up to US$34.5 million with HSBC (Note 10). During the period ended September 30, 2013, the operating line of credit (with a balance of US$29,660,667 including accrued interest) was settled against the term deposit and the Company received the balance of US$6,099,844 into cash and cash equivalents.

b) At the time of signing the Origin Letter Agreement, 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 (Notes 2 and 16).

6. INVENTORIES

	September 30, 2013 $	December 31, 2012 $
Materials and supplies	1,996,080	2,687,423
Oil inventories (a)	60,699	289,220
	2,056,779	**2,976,643**

(a) During the nine-month period ended September 30, 2013, $6,867,267 (September 30, 2012: $6,539,061) of inventory cost was expensed to the statement of comprehensive loss. Of this amount $295,018 related to stock-based compensation previously capitalized to oil inventories.

7. 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 have been presented as non-current assets held for sale. The estimated fair value less cost to sell of the land and buildings is $742,197 (NZ$870,000) and the Company has recognized a $275,484 impairment loss against the carrying value of its land and buildings.

(Expressed in Canadian Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Furniture, Equipment and Fixture	Land and Building	Oil and Gas Properties	Total
	$	$	$	$
Cost				
Balance, December 31, 2011	267,100	-	5,557,577	5,824,677
Additions	6,962,451	985,610	268,368	8,216,429
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	55,390	(3,728)	269,028	320,690
Balance, December 31, 2012	**7,136,716**	**981,882**	**20,316,180**	**28,434,778**
Additions	5,213,083	-	-	5,213,083
Transferred to assets available for sale	-	(720,708)		(720,708)
Impairment	-	(275,484)		(275,484)
Asset retirement obligation recognized	-	-	(131,850)	(131,850)
Foreign currency translation adjustment	399,985	14,310	899,076	1,313,371
Balance, September 30, 2013	**12,749,784**	**-**	**21,083,406**	**33,833,190**
Accumulated depreciation				
Balance, December 31, 2011	17,183	-	297,983	315,166
Depreciation and depletion charge	1,084,419	-	3,117,010	4,201,429
Foreign currency translation adjustment	13,064	-	37,361	50,425
Balance, December 31, 2012	**1,114,666**	**-**	**3,452,354**	**4,567,020**
Depreciation and depletion charge	974,082	-	1,427,831	2,401,913
Foreign currency translation adjustment	83,897	-	159,317	243,214
Balance, September 30, 2013	**2,172,645**	**-**	**5,039,502**	**7,212,147**
Net book value				
Balance, December 31, 2012	**6,022,050**	**981,882**	**16,863,826**	**23,867,758**
Balance, September 30, 2013	**10,577,139**	**-**	**16,043,904**	**26,621,043**

(Expressed in Canadian Dollars)

9. 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	12,184,045	3,846,980	16,031,025
Asset retirement obligation recognized	552,685	(13,054)	539,631
Foreign currency translation adjustment	1,425,425	483,825	1,909,250
Balance, September 30, 2013	**42,024,498**	**13,835,134**	**55,859,632**

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.

10. OPERATING LINE OF CREDIT

During 2012 the Company secured an operating line of credit against its deposit with HSBC New Zealand (Note 5(a)). 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 September 30, 2013.

During the period ended September 30, 2013, the Company settled the outstanding balance of the operating line of credit, including accrued interest, of US$29,660,667.

11. 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 $4,257,230.

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 period	676,074
Change in estimate	(266,356)
Accretion expense for the period	83,667
Foreign currency translation adjustment	120,701
Balance, September 30, 2013	**3,212,926**

(Expressed in Canadian Dollars)

11. ASSET RETIREMENT OBLIGATIONS (continued)

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

	2013	**2012**
Total undiscounted value of payments	$4,257,230	$3,441,968
Discount rate	3.01% to 4.60%	2.55% to 3.56%
Expected life	2 to 13 years	2 to 10 years

12. 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 48,904,355 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 (Note 16). 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 finders' fee of $1,005,130 (comprising 7% cash commission to qualified persons) and also issued 3,045,849 finders' warrants (equal to 7% of the number of subscriptions receipts issued to qualified persons). Each finder's 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. As at September 30, 2013, the Company had received $7,881,990 of the total proceeds and incurred deferred financing costs of $62,048 related to the private placement.

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
August 3, 2014	6,713,400
Total	46,394,334

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 12,196,910 options, based on the total issued and outstanding common shares as at June 30, 2013. Such options can be exercisable for a maximum of five years from the

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Share purchase options (continued)

date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

A continuity table of share purchase options for the period ended September 30, 2013 is as follows:

	Number of Options	Weighted Average Exercise Price $
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	797,200	$1.14
Forfeited	(310,000)	$1.57
Outstanding at September 30, 2013	9,671,200	$1.35

The following table summarises information about share options outstanding and exercisable at September 30, 2013:

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
$1.00 to $1.49	6,343,200	2.90	5,343,300	2.72
$1.50 to $1.99	1,949,000	3.81	724,500	3.81
$2.00 to $2.49	1,078,000	3.98	462,250	3.97
$2.50 to $3.00	301,000	3.51	181,780	3.50
	9,671,200	3.22	6,711,800	2.94

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

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	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 nine month period ended September 30, 2013 was $3,086,841. $1,312,011 has been expensed in the statement of comprehensive income (loss) of which $295,018 relates to production cost (Note 6(a)). As at September 30, 2013, $62,937 of share based compensation has been capitalized to oil inventories, while $279,646 and $1,432,247 has been capitalized to property plant and equipment and exploration and evaluation assets respectively.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Share purchase options (continued)

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	1.37%	1.23%
Expected volatility	116.73%	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.

d) 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.

A continuity table of share purchase warrants for the period ended September 30, 2013 is 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
Outstanding at September 30, 2013	-	-

On October 28, 2013, the Company completed an oversubscribed private placement, issuing 48,904,355 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 (Note 16). 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 finders' fee of $1,005,130 (comprising 7% cash commission to qualified persons) and also issued 3,045,849 finders' warrants (equal to 7% of the number of subscriptions receipts issued to qualified persons). Each finder's 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.

(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

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

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	$	$	$	$
Salary and management fees	763,362	361,500	2,233,953	1,089,650
Share-based compensation	289,449	757,417	1,241,970	2,155,905
	1,052,811	1,118,917	3,475,923	3,245,555

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

14. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	$	$	$	$
Professional fees	193,921	180,036	663,995	543,611
Management fees	274,819	211,500	824,259	699,650
Consulting fees	128,172	8,376	472,211	566,603
Travel and promotion	159,401	282,841	383,049	720,643
Administrative expenses	139,821	165,495	535,911	314,792
Rent	58,358	58,756	157,507	100,147
Filing and transfer agent fees	22,707	15,258	114,210	148,521
Insurance	28,961	21,808	133,821	55,373
Salary and wages	126,107	60,000	1,055,900	123,483
	1,132,267	**1,004,070**	**4,340,863**	**3,272,823**

15. COMMITMENTS

As at September 30, 2013, the Company had the following undiscounted contractual obligations:

	Less than 1 year	1–3 years	3–5 years	Beyond 5 years	Total
	$	$	$	$	$
Accounts payable	1,654,000	-	-	-	1,654,000
Operating lease obligations (1)	52,000	428,000	370,000	-	850,000
Contract and purchase commitments (2)	3,289,000	-	-	-	3,289,000
Minimum work program requirements (3)	4,200,000	58,147,000	12,708,000	-	75,055,000
TWN Joint Arrangement (4)	9,450,000	-	-	-	9,450,000
Environmental obligations (5)	-	1,078,000	374,000	2,805,000	4,257,000
Total	**18,645,000**	**59,653,000**	**13,452,000**	**2,805,000**	**94,555,000**

15. COMMITMENTS (continued)

(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 committed to complete certain minimum work program requirements in order to maintain its various resource permits. On November 7, 2013, the Company announced certain amendments to its work program requirements which are reflected in the table above (Note 16(c)).
(4) The Company entered into definitive agreements whereby the Company would acquire a 50% working interest in the TWN Joint Arrangement. Under the terms of the various agreements described in Note 2, as at September 30, 2013, the Company was expected to pay $9.45 million towards its 50% interest in the TWN Joint Arrangement. This Acquisition was completed on October 28, 2013 (Notes 2 and 16(b)).
(5) The Company has recognized an undiscounted asset retirement obligation of $4.26 million.

At September 30 2013, the Company had $2,003,921 in cash and cash equivalents (December 31, 2012: $5,983,121) and $4,748,797 in working capital (December 31, 2012: $28,293,845). The Company subsequently completed an oversubscribed private placement (Notes 12(a)(iii) and 16(a)). Based on the available working capital, and forecasted cash flows from production, management has estimated that the Company has sufficient capital to meet short-term operating requirements. However, in order to meet all planned capital expenditures for the next 12 months, the Company is considering a number of options to increase its financial capacity. These options include increasing cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives.

16. SUBSEQUENT EVENTS

a) On October 28, 2013, the Company completed an oversubscribed private placement, issuing 48,904,355 subscription receipts at a price of $0.33 per subscription receipt. The subscription receipts are convertible 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. The Company also issued 3,045,849 finders' warrants (equal to 7% of the number of subscriptions receipts issued to qualified persons). Each finder's 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. On November 18, 2013 the Company filed its final short form prospectus and on November 21, 2013 the subscription receipts converted into 48,904,355 common shares and 24,452,178 warrants, with an additional 3,045,849 finders' warrants (Notes 12(a) and 12(c)).

b) On October 28, 2013, the Company closed the Acquisition of the TWN Licences and TWN Assets, formed the TWN Joint Arrangement with L&M, and took over joint control of the exploration and development of the TWN Licences and operation of the TWN Assets.

c) On November 7, 2013, the Company announced that NZEC and L&M had received approval to extend the exploration term for the Alton Permit (in which NZEC has a 65% working interest and L&M 35%) for a second five-year term, ending September 23, 2018. NZEC and L&M also received an extension to their obligation to drill the Horoi commitment well, along with the approval of a new work program for the Alton Permit. The new work program requires NZEC and L&M to drill two exploration wells, process 20km^2 of 3D seismic and 20km of 2D seismic and to complete a number of technical studies and reports. The Horoi well will satisfy the first of the two required exploration wells.

The Company also received an amendment to its work program for its 100%-owned Castlepoint Permit, providing an extension to the requirement for drilling the Company's first commitment well on that permit.

The commitment disclosures in Note 15 reflect these amendments to the relevant work programs.