



**New Zealand Energy Corp.**

**Third Quarter 2011  
Condensed Consolidated Interim Financial Statements**

**September 30, 2011**

(Canadian Funds)

**New Zealand Energy Corp.**  
(An Exploration Stage Corporation)

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS**  
(Unaudited)

|                                          | September 30, 2011<br>\$ | December 31, 2010<br>\$ |
|------------------------------------------|--------------------------|-------------------------|
| <b>Assets</b>                            |                          |                         |
| Current                                  |                          |                         |
| Cash and cash equivalents                | 23,187,827               | 6,193,317               |
| Amounts receivable                       | 377,754                  | 36,333                  |
| Prepaid expenses                         | 107,448                  | -                       |
|                                          | <b>23,673,029</b>        | <b>6,229,650</b>        |
| Deposit                                  | 8,391                    | 11,450                  |
| Intangible assets (Note 3)               | 312,675                  | -                       |
| Property, plant and equipment (Note 4)   | 63,421                   | -                       |
| Resource properties (Note 5)             | 9,509,095                | 60,222                  |
|                                          | <b>33,566,611</b>        | <b>6,301,322</b>        |
| <b>Liabilities</b>                       |                          |                         |
| Current                                  |                          |                         |
| Accounts payable and accrued liabilities | 4,937,007                | 127,624                 |
| Due to related parties (Note 6)          | 37,000                   | 244,334                 |
|                                          | 4,974,007                | 371,958                 |
| Asset retirement obligations (Note 7)    | 148,684                  | -                       |
|                                          | <b>5,122,691</b>         | <b>371,958</b>          |
| <b>Shareholders' Equity</b>              |                          |                         |
| Share capital (Note 8a)                  | 33,830,412               | 5,921,500               |
| Shares subscribed (Note 8a)              | -                        | 350,000                 |
| Foreign currency translation reserve     | (212,818)                | -                       |
| Contributed surplus                      | 11,883,460               | 9,996,000               |
| Accumulated deficit                      | (17,057,134)             | (10,338,136)            |
|                                          | <b>28,443,920</b>        | <b>5,929,364</b>        |
|                                          | <b>33,566,611</b>        | <b>6,301,322</b>        |

These consolidated financial statements are authorized for issuance by the Board of Directors on November 23, 2011.

**On behalf of the Board of Directors**

"John G. Proust"  
John G. Proust, Director

"Ken Truscott"  
Ken Truscott, Director

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

**New Zealand Energy Corp.**  
(An Exploration Stage Corporation)

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited)

|                                                                      | Number of<br>Shares | Share<br>Capital<br>\$ | Share<br>Subscribed<br>\$ | Contributed<br>Surplus<br>(stock-based<br>payment)<br>\$ | Contributed<br>Surplus<br>(agent's<br>warrants)<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Accumulated<br>Deficit<br>\$ | Total Equity<br>\$ |
|----------------------------------------------------------------------|---------------------|------------------------|---------------------------|----------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------|------------------------------|--------------------|
| <b>Balance at Incorporation, October 29, 2010</b>                    | -                   | -                      | -                         | -                                                        | -                                                     | -                                                   | -                            | -                  |
| Common shares, at \$0.0001 (Note 8a)                                 | 40,000,000          | 4,000                  | -                         | 9,996,000                                                | -                                                     | -                                                   | -                            | 10,000,000         |
| Common shares, at \$0.25 (Note 8a)                                   | 23,670,000          | 5,917,500              | -                         | -                                                        | -                                                     | -                                                   | -                            | 5,917,500          |
| Shares subscribed (Note 8a)                                          | -                   | -                      | 350,000                   | -                                                        | -                                                     | -                                                   | -                            | 350,000            |
| Total comprehensive loss for the period                              | -                   | -                      | -                         | -                                                        | -                                                     | -                                                   | (10,338,136)                 | (10,338,136)       |
| <b>Balance, December 31, 2010</b>                                    | <b>63,670,000</b>   | <b>5,921,500</b>       | <b>350,000</b>            | <b>9,996,000</b>                                         | -                                                     | -                                                   | <b>(10,338,136)</b>          | <b>5,929,364</b>   |
| Common shares, at \$0.25 (Note 8a)                                   | 3,330,000           | 832,500                | -                         | -                                                        | -                                                     | -                                                   | -                            | 832,500            |
| Common shares, at \$0.75 (Note 8a)                                   | 7,010,000           | 5,257,500              | -                         | -                                                        | -                                                     | -                                                   | -                            | 5,257,500          |
| Shares subscribed (Note 8a)                                          | 1,000,000           | 250,000                | (350,000)                 | -                                                        | -                                                     | -                                                   | -                            | (100,000)          |
| Shares issued on asset acquisition, at deemed price \$0.50 (Note 8a) | 2,000,000           | -                      | -                         | 1,000,000                                                | -                                                     | -                                                   | -                            | 1,000,000          |
| Initial public offering, at \$1.00 (Note 8a)                         | 20,000,000          | 20,000,000             | -                         | -                                                        | -                                                     | -                                                   | -                            | 20,000,000         |
| Share issued for finders' fees                                       | 688,605             | 688,605                | -                         | -                                                        | -                                                     | -                                                   | -                            | 688,605            |
| Common shares, at \$1.00 (Note 8a)                                   | 1,910,500           | 1,910,500              | -                         | -                                                        | -                                                     | -                                                   | -                            | 1,910,500          |
| Share issue costs                                                    | -                   | (2,106,730)            | -                         | -                                                        | -                                                     | -                                                   | -                            | (2,106,730)        |
| Stock based compensation – options (Note 8c)                         | -                   | -                      | -                         | 663,997                                                  | -                                                     | -                                                   | -                            | 663,997            |
| Stock based compensation – warrants (Note 8d)                        | -                   | (223,463)              | -                         | -                                                        | 223,463                                               | -                                                   | -                            | -                  |
| Shares issued for resource properties acquisition                    | 1,000,000           | 1,300,000              | -                         | -                                                        | -                                                     | -                                                   | -                            | 1,300,000          |
| Total comprehensive loss for the period                              | -                   | -                      | -                         | -                                                        | -                                                     | (212,818)                                           | (6,718,998)                  | (6,931,816)        |
| <b>Balance, September 30, 2011</b>                                   | <b>100,609,105</b>  | <b>33,830,412</b>      | -                         | <b>11,659,997</b>                                        | <b>223,463</b>                                        | <b>(212,818)</b>                                    | <b>(17,057,134)</b>          | <b>28,443,920</b>  |

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

**New Zealand Energy Corp.**  
(An Exploration Stage Corporation)

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Unaudited)

|                                                           | Three months ended<br>September, 2011<br>\$ | Nine months ended<br>September 30, 2011<br>\$ |
|-----------------------------------------------------------|---------------------------------------------|-----------------------------------------------|
| <b>Expenses</b>                                           |                                             |                                               |
| Talon-1 well impairment                                   | 2,526,773                                   | 2,526,773                                     |
| Stock-based compensation (Note 8a & c)                    | 663,997                                     | 1,663,997                                     |
| Professional fees (Note 8a)                               | (142,047)                                   | 432,595                                       |
| Management fees                                           | 272,270                                     | 725,502                                       |
| Consulting fees                                           | (28,427)                                    | 244,936                                       |
| Travel and promotion                                      | 160,046                                     | 375,809                                       |
| Administrative expenses                                   | 38,568                                      | 156,670                                       |
| Salary and wages                                          | 216,483                                     | 395,858                                       |
| Rent                                                      | 48,891                                      | 105,748                                       |
| Depreciation, amortization and accretion                  | 15,424                                      | 34,391                                        |
| Filing and transfer agent fees                            | 46,178                                      | 82,069                                        |
| Insurance                                                 | 7,728                                       | 24,223                                        |
| General exploration                                       | -                                           | 8,030                                         |
| Royalty                                                   | 9,769                                       | 9,769                                         |
| Foreign exchange gain                                     | (9,581)                                     | (13,110)                                      |
| <b>Total expenses</b>                                     | <b>(3,826,072)</b>                          | <b>(6,773,260)</b>                            |
| <b>Other item</b>                                         |                                             |                                               |
| Interest income                                           | 27,586                                      | 54,262                                        |
| <b>Loss for the period</b>                                | <b>(3,798,486)</b>                          | <b>(6,718,998)</b>                            |
| Exchange difference on translation of foreign<br>currency | (481,053)                                   | (212,818)                                     |
| <b>Total comprehensive loss for the period</b>            | <b>(4,279,538)</b>                          | <b>(6,931,816)</b>                            |
| Basic and diluted loss per share                          | (0.04)                                      | (0.08)                                        |
| Weighted average shares outstanding                       | 90,999,480                                  | 80,116,199                                    |

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

**New Zealand Energy Corp.**  
(An Exploration Stage Corporation)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
(Unaudited)

|                                                                     | Three months ended<br>September 30, 2011<br>\$ | Nine months ended<br>September 30, 2011<br>\$ |
|---------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------|
| <b>Operating activities</b>                                         |                                                |                                               |
| Loss for the period                                                 | (3,798,486)                                    | (6,718,998)                                   |
| Stock-based compensation                                            | 663,997                                        | 1,663,997                                     |
| Depreciation                                                        | 12,297                                         | 34,390                                        |
| Foreign exchange gain                                               | (9,581)                                        | (13,110)                                      |
| Resource property write-offs                                        | 2,526,773                                      | 2,526,773                                     |
| Change in non-cash working capital items:                           |                                                |                                               |
| Amounts receivable                                                  | (170,103)                                      | (311,421)                                     |
| Prepaid                                                             | (26,465)                                       | (107,448)                                     |
| Due to related parties                                              | (8,010)                                        | (185,022)                                     |
| Accounts payable and accrued liabilities                            | (68,538)                                       | 77,251                                        |
| <b>Cash used in operating activities</b>                            | <b>(878,116)</b>                               | <b>(3,033,588)</b>                            |
| <b>Investing activities</b>                                         |                                                |                                               |
| Expenditures on resource property                                   | (1,611,334)                                    | (5,885,818)                                   |
| Intangible assets                                                   | -                                              | (326,927)                                     |
| Property, plant and equipment                                       | -                                              | (67,913)                                      |
| Deposit                                                             | -                                              | 3,060                                         |
| <b>Cash used for investing activities</b>                           | <b>(1,611,334)</b>                             | <b>(6,277,598)</b>                            |
| <b>Financing activities</b>                                         |                                                |                                               |
| Shares subscribed                                                   | -                                              | (100,000)                                     |
| Shares issued (net of share issue cost)                             | 20,492,375                                     | 26,552,375                                    |
| <b>Cash provided by financing activities</b>                        | <b>20,492,375</b>                              | <b>26,452,375</b>                             |
| Net increase in cash during the period                              | 18,002,925                                     | 17,141,189                                    |
| Effect of exchange rate changes on cash                             | (157,213)                                      | (146,679)                                     |
| <b>Cash, beginning of the period</b>                                | <b>5,342,115</b>                               | <b>6,193,317</b>                              |
| <b>Cash, end of the period</b>                                      | <b>23,187,827</b>                              | <b>23,187,827</b>                             |
| <b>Supplemental cash flow disclosures</b>                           |                                                |                                               |
| Accounts payable related to resource property at September 30, 2011 | (4,753,806)                                    | (4,753,806)                                   |

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

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

## **1. GENERAL INFORMATION**

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

The Corporation, through its subsidiaries, is engaged in the acquisition, exploration, development and production of conventional and unconventional oil and natural gas resources in New Zealand. Since incorporation, the Corporation has completed private placement financings, its Initial Public Offering (the "Offering") (Note 8a), established an operational structure, set up offices in Vancouver, British Columbia and Wellington, New Zealand, engaged key personnel and acquired its current oil and natural gas assets (Note 5).

The Corporation's registered and records office is located at suite 1200-750 West Pender Street, Vancouver, British Columbia V6C 2T8. The Corporation's head office is located at suite 1500-885 West Georgia Street, Vancouver British Columbia, V6C 3E8.

The Corporation's shares are listed on the TSX Venture Exchange under the symbol "NZ".

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Preparation**

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Corporation's consolidated financial statements, as at and for the period ended December 31, 2010.

The accounting policies applied by the Corporation in these condensed consolidated interim financial statements are the same as those applied by the Corporation in its most recent annual consolidated financial statements for the period ended December 31, 2010.

These condensed 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 condensed consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, NZ Holdings Pte. Ltd., NZEC Management Limited, Taranaki Ventures Limited, East Coast Energy Ventures Limited, ECEV II Limited, ECEV III Limited, New Zealand Offshore Ventures Limited and Taranaki Venture II Limited (formerly NZOV II Limited). Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company balances and transactions, income and expenses have been eliminated upon consolidation.

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

**Significant Accounting Estimates and Judgments**

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statement and reported amounts of expenses during the reporting period. Actual outcomes could 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.

Significant assumptions about the future and other sources of estimating uncertainty that management has made at the end of the period include the determination of inputs used in calculating the fair value of asset retirement obligation and assumptions used in calculating the fair value of share based compensation.

**Accounting Pronouncements Not Yet Effective**

The Corporation has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after January 1, 2013. These include:

- IFRS 9 – Financial Instruments: Classification and Measurement
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangement
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

**3. INTANGIBLE ASSETS**

Intangible assets consist of 2D and 3D Seismic Models and geological files of the Taranaki and East Coast Basins.

|                                         | <b>Seismic models and geological data</b> |
|-----------------------------------------|-------------------------------------------|
|                                         | <b>\$</b>                                 |
| <b>Cost</b>                             |                                           |
| Balance, December 31, 2010              | -                                         |
| Additions                               | 326,927                                   |
| Foreign currency translation adjustment | 11,100                                    |
| Balance, September 30, 2011             | 338,027                                   |
| <b>Accumulated amortization</b>         |                                           |
| Balance, December 31, 2010              | -                                         |
| Amortization for the period             | 25,719                                    |
| Foreign currency translation adjustment | (367)                                     |
| Balance, September 30, 2011             | 25,352                                    |
| <b>Net carrying value</b>               |                                           |
| Balance, December 31, 2010              | -                                         |
| Balance, September 30, 2011             | 312,675                                   |

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

**4. PROPERTY, PLANT AND EQUIPMENT**

|                                         | <b>Computer<br/>Equipment</b> | <b>Furniture</b> | <b>Total</b> |
|-----------------------------------------|-------------------------------|------------------|--------------|
| <b>Cost</b>                             |                               |                  |              |
| Balance, December 31, 2010              | -                             | -                | -            |
| Additions                               | 39,484                        | 28,429           | 67,913       |
| Foreign currency translation adjustment | 1,341                         | 965              | 2,306        |
| Balance, September 30, 2011             | 40,825                        | 29,394           | 70,219       |
| <b>Accumulated depreciation</b>         |                               |                  |              |
| Balance, December 31, 2010              | -                             | -                | -            |
| Depreciation for the period             | 4,659                         | 2,236            | 6,895        |
| Foreign currency translation adjustment | (65)                          | (32)             | (97)         |
| Balance, September 30, 2011             | 4,594                         | 2,204            | 6,798        |
| <b>Net carrying value</b>               |                               |                  |              |
| Balance, December 31, 2010              | -                             | -                | -            |
| Balance, September 30, 2011             | 36,231                        | 27,190           | 63,421       |

**5. RESOURCE PROPERTIES**

|                                         | <b>Taranaki Basin,<br/>New Zealand<br/>\$</b> | <b>East Coast Basin,<br/>New Zealand<br/>\$</b> | <b>Total<br/>\$</b> |
|-----------------------------------------|-----------------------------------------------|-------------------------------------------------|---------------------|
| Balance, October 29, 2010               | -                                             | -                                               | -                   |
| <b>Acquisition costs</b>                | -                                             | 10,713                                          |                     |
| <b>Exploration costs</b>                |                                               |                                                 |                     |
| Consulting                              | 8,268                                         | 37,941                                          | 46,209              |
| Geological and other                    | -                                             | 3,300                                           | 3,300               |
| Balance, December 31, 2010              | 8,268                                         | 51,954                                          | 60,222              |
| <b>Acquisition cost</b>                 | 2,                                            | 2,                                              | 4,                  |
| <b>Exploration costs</b>                |                                               |                                                 |                     |
| Consulting                              | 353,172                                       | -                                               | 353,172             |
| Geological                              | -                                             | 39,651                                          | 39,651              |
| Well development                        | 6,963,722                                     | -                                               | 7,248,937           |
| Recoveries                              | (183,925)                                     | -                                               | (183,925)           |
| Asset retirement cost                   | 143,229                                       | -                                               | 143,229             |
| Talon-1 well impairment                 | (2,519,751)                                   | -                                               | (2,519,751)         |
| Foreign currency translation adjustment | 60,811                                        | 2,410                                           |                     |
| Balance, September 30, 2011             | <b>6,965,729</b>                              | <b>2,543,366</b>                                | <b>9,509,095</b>    |

**Taranaki Basin, New Zealand**

***Eltham Permit***

During the period ended December 31, 2010, the Corporation, through its wholly-owned New Zealand subsidiary, Taranaki Ventures Limited, entered into the Eltham Assignment Agreement with Green Gate Limited to acquire the Eltham Permit. As consideration for the assignment of the Eltham Permit, Taranaki Ventures Limited paid NZ\$10 to Green Gate Limited and entered into a drilling contract with NRG Drilling Limited. Green Gate Limited and NRG Drilling Limited are related entities. Pursuant to the drilling



**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

contract, Taranaki Ventures Limited paid a total of \$1,920,000 to NRG Drilling Limited to drill and case the Copper Moki-1 Well. The Copper Moki-1 Well was drilled and the rig was released from its contract on February 17, 2011. As a result, the drilling contract between Taranaki Ventures Limited and NRG drilling Limited has been terminated. On March 3, 2011, the Minister of Energy granted consent to the assignment of the Eltham Permit and the Permit was transferred to Taranaki Ventures Limited.

As at September 30, 2011, the Corporation recorded an asset retirement obligation of \$119,404 resulting from the net ownership in oil and gas development activity (Note 7).

***Alton Permit***

On June 24, 2011, the Corporation, Taranaki Ventures II Limited and AGL Upstream Gas (MOS) Pty Limited ("AGL") entered into the Alton Asset Purchase Agreement, pursuant to which Taranaki Ventures II Limited agreed to purchase AGL's 50% interest in the Alton Permit and associated joint venture with L&M Energy ("L&M") for AUD\$2,000,000. The Corporation guaranteed the obligations of Taranaki Ventures II under the Alton Asset Purchase Agreement.

In connection with the Alton Agreement, the Corporation entered into the L&M Agreement with L&M, the holder of the remaining 50% interest in the Alton Permit. Pursuant to the L&M Energy Agreement, L&M agreed to waive its pre-emptive right to acquire the 50% interest in the Alton Permit from AGL and to permit the Corporation (through Taranaki Ventures II Limited) to be the operator of the Alton Permit on completion of the transfer of AGL's interest.

The transfer of AGL's 50% interest in the Alton Permit was approved by the Minister of Energy on October 4, 2011.

As at September 30, 2011, the Corporation recorded an asset retirement obligation of \$33,099 resulting from the net ownership in oil and gas development activity (Note 7).

**East Coast Basin, New Zealand**

***Castlepoint Permit***

On November 24, 2010, the Corporation, through its wholly-owned New Zealand subsidiary East Coast Energy Ventures Limited, was granted the Castlepoint Permit by the Minister of Energy.

***Ranui Permit***

On February 22, 2011, the Corporation, through its wholly-owned New Zealand subsidiary ECEV III Limited, entered into the Ranui Assignment Agreement with Discovery Geo Corporation ("Discovery Geo") pursuant to which ECEV III Limited agreed to acquire a 100% interest in the Ranui Permit. The Minister of Energy consented to the assignment of the Ranui Permit to ECEV III Limited on June 27, 2011. On July 7, 2011, the Corporation and Discovery Geo entered into an indemnity agreement pursuant to which Discovery Geo agreed to indemnify the Corporation against any claims from existing royalties or the right to receive future royalties in excess of 3% on the Ranui Permit (exclusive of the 5% royalty payable to the Crown). In consideration for the assignment ECEV III Limited paid US\$1,000,000 and issued 1,000,000 common shares of the Corporation to Discovery Geo at a price of \$1.30 per common share.

An amendment to the work program, which extended the dates for completing certain activities required under the Ranui Permit, was approved by the Minister of Energy on June 17, 2011.

The Corporation has completed certain required geochemical studies and plans to re-enter a suspended well on the property in Q4-2011.

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

**East Cape Permit**

On September 3, 2010 East Coast Energy Ventures Limited applied to the Minister of Energy for the East Cape Permit and subsequently transferred that application to ECEV II Limited. The application was uncontested and the Corporation anticipates that the East Cape Permit will be granted to ECEV II Limited upon completion of Crown Mineral's review of the application.

**6. RELATED PARTY TRANSACTIONS**

**Key Management and Personnel Compensation**

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

|                            | Three months ended<br>September, 2011<br>\$ | Nine months ended<br>September 30, 2011<br>\$ |
|----------------------------|---------------------------------------------|-----------------------------------------------|
| Salary and management fees | 317,000                                     | 865,850                                       |
| Share-based compensation   | 584,513                                     | 1,584,513                                     |

Related party balances arising from purchases of goods and services resulted in the following amounts due to related parties:

|                                                                      | September 30, 2011<br>\$ | December 31, 2010<br>\$ |
|----------------------------------------------------------------------|--------------------------|-------------------------|
| Wexford Energy Ltd., a private company controlled by the President   | 20,160                   | 71,680                  |
| J. Proust & Associates Inc., a private company controlled by the CEO | -                        | 143,360                 |
| Others                                                               | 16,840                   | 29,294                  |
|                                                                      | 37,000                   | 244,334                 |

The above transactions occurred in the normal course of operations and were measured at the fair value which represented the consideration established and agreed to by the related parties. The related party balances have no fixed payment term and bear no interest.

As at September 30, 2011, the CEO of the Corporation owed the Corporation \$30,000 for the subscription of 30,000 common shares of the Corporation issued during the period. This amount was included in the account receivable balance and was fully received subsequent to the period-end.

Certain directors of the Corporation agreed to make sufficient resources available to East Coast Energy Ventures Limited and ECEV II Limited if those companies do not have sufficient resources to pay any fees or other amounts due under the Crown Mineral Act 1991 and regulation thereunder, or to perform any obligations under the Castlepoint Permit and the East Cape Permit work programs. The undertaking will remain in place until Crown Minerals (the local New Zealand Government registry) provides a release to the named directors.

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

**7. ASSET RETIREMENT OBLIGATIONS**

The Corporation's asset retirement obligations result from net ownership in oil and gas development activity. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately NZ\$210,000 dollars, which will be expected to incur after 2013.

The liability for the Corporation's asset retirement obligation is recorded in the period in which it is incurred and discounted to its present value using a risk free rate of 3% and the corresponding amount is recognized by increasing the carrying amount of the oil and gas resource properties. The liability is accreted each period with the accretion expense recognized in the statement of comprehensive loss and the capitalized cost is depreciated over the useful life of the related asset when put into use using the unit-of production method.

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

|                                         | <b>September 30, 2011</b> |
|-----------------------------------------|---------------------------|
| Balance, beginning of period            | -                         |
| Liabilities incurred for the period     | 143,229                   |
| Accretion expense for the period        | 1,776                     |
| Foreign currency translation adjustment | 3,679                     |
| Balance, end of period                  | 148,684                   |

**8. SHARE CAPITAL**

a. Details of issuances of common shares

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

On August 3, 2011, the Corporation closed its Offering. Pursuant to the Offering, the Corporation issued 20,000,000 common shares at a price of \$1.00 per share for total gross proceeds of \$20,000,000. The Offering was completed through a syndicate of agents (the "Agents").

On September 2, 2011, the Corporation closed the over-allotment option related to the Offering and issued 1,910,500 common shares at a price of \$1.00 per common shares, bringing the aggregate gross proceeds of the Offering to \$21,910,500.

In connection to the Offering and the over-allotment option related to the Offering, the Corporation paid its agent \$626,565 and issued 688,605 common shares of the Corporation as a finders' fee. The Corporation also issued 657,315 share purchase warrants to the Agent, exercisable at \$1.00 until February 3, 2013.

During the period ended September 30, 2011, the Corporation reclassified \$286,805 professional fees related to the Offering incurred in second quarter to share issue costs.

During the period ended September 30, 2011, the Corporation issued 1,000,000 common shares at \$1.30 per common share for a resource property acquisition.

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

During the period ended June 30, 2011, the Corporation issued 4,330,000 common shares at a price of \$0.25 per share and 7,010,000 common shares at a price of \$0.75 per share by ways of private placements. The Corporation also issued 2,000,000 common shares, in escrow shares, to Ian R. Brown Associates Limited ("IRBA") at a deemed price of \$0.50 per share pursuant to the Asset

Purchase Agreement dated February 21, 2011. As a result, \$1,000,000 of stock-based compensation was expensed in the six-month period ended June 30, 2011.

During the period ended December 31, 2010, the Corporation completed seed financings composed of 40,000,000 common shares issued at a price of \$0.0001 and 23,670,000 common shares issued at a price of \$0.25 per share. The Corporation also received \$350,000 in advance for future share issuances, \$100,000 of which was returned during the period ended March 31, 2011.

The fair value of the 40,000,000 common shares, issued at \$0.0001 per share, in escrow shares issued to the founders of the Corporation was determined to be \$10,000,000, or \$0.25 per share.

As a result, \$9,996,000 of stock-based compensation was expensed in the period ended December 31, 2010.

b. Escrowed shares

In accordance with a lockup agreement, escrow agreement and pooling agreement, 45,064,334 common shares owned or controlled by certain directors and officers of the Corporation were escrowed at the Listing Date. The shares will be released over 36 months from the Listing Date as follows:

| Release date     | Number of common shares |
|------------------|-------------------------|
| August 3, 2011   | 200,000 (released)      |
| February 3, 2012 | 300,000                 |
| May 3, 2012      | 5,853,934               |
| August 3, 2012   | 6,773,400               |
| February 3, 2013 | 8,851,200               |
| August 3, 2013   | 8,851,200               |
| February 3, 2014 | 8,851,200               |
| August 3, 2014   | 6,713,400               |
| <b>Total</b>     | <b>46,394,334</b>       |

c. Supplementary escrowed shares

In accordance with a supplementary pooling agreement, 25,104,000 additional common shares not owned or controlled by certain directors and officers of the Corporation were escrowed at the Listing Date. The shares will be released over 12 months from the Listing Date as follows:

| Release date      | Number of common shares |
|-------------------|-------------------------|
| August 3, 2011    | 851,600 (released)      |
| September 3, 2011 | 851,600 (released)      |
| October 3, 2011   | 851,600 (released)      |
| November 3, 2011  | 6,063,100 (released)    |
| December 3, 2011  | 851,600                 |
| February 3, 2012  | 5,211,500               |
| May 3, 2012       | 5,211,500               |
| August 3, 2012    | 5,211,500               |
| <b>Total</b>      | <b>25,104,000</b>       |

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

d. Share purchase option

The Corporation has adopted a stock option plan which provides that the Board of Directors of the Corporation may from time to time, at their discretion, and in accordance with TSX Venture Exchange requirements, grant to its directors, officers, employees and consultants of the company, 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. Such options can be exercisable for a maximum of the 5 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. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

Continuity of share purchase options for the nine months ended September 30, 2011 is as follows:

| Expiry date                                         | Exercise price | December 31, 2010 | Granted   | Exercised (Cancelled) | September 30, 2011 | Exercisable |
|-----------------------------------------------------|----------------|-------------------|-----------|-----------------------|--------------------|-------------|
| August 3, 2016                                      | \$1.00         | -                 | 4,828,000 | -                     | 4,828,000          | -           |
| Total                                               |                | -                 | 4,828,000 | -                     | 4,828,000          | -           |
| Weighted average exercise price                     |                |                   | \$1.00    | -                     | \$1.00             | -           |
| Weighted average remaining contractual life (years) |                | -                 |           |                       | 4.83               |             |

The total stock-based compensation expense recognised in relation to the options during the three- and nine-month period ended September 2011 is \$663,997.

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

|                         |         |
|-------------------------|---------|
| Risk-free interest rate | 1.92%   |
| Expected volatility     | 119.49% |
| Expected life           | 5 years |
| Expected dividend yield | nil     |

Option pricing models require the input of subjective assumptions including the expected price volatility, and expected option life. Changes in these assumptions may have a significant impact on the fair value calculation.

e. Agent's warrants

The Corporation has granted warrants to purchase common shares. A continuity of agents' warrants for the nine months ended September 30, 2011 is as follows:

| Expiry date                                         | Exercise price | December 31, 2010 | Granted | Exercised (Cancelled) | September 30, 2011 | Exercisable |
|-----------------------------------------------------|----------------|-------------------|---------|-----------------------|--------------------|-------------|
| February 3, 2013                                    | \$1.00         | -                 | 600,000 | -                     | 600,000            | -           |
| February 3, 2013                                    | \$1.00         | -                 | 57,315  | -                     | 57,315             | -           |
| Total                                               |                | -                 | 657,315 | -                     | 657,315            | -           |
| Weighted average exercise price                     |                |                   | \$1.00  | -                     | \$1.00             | -           |
| Weighted average remaining contractual life (years) |                | -                 |         |                       | 1.34               | -           |

**New Zealand Energy Corp.**  
*(An Exploration Stage Corporation)*  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
(Unaudited)

During the three- and nine-month period ended September 2011, the Corporation recorded share issuance cost of \$223,463 as a result of the issuance of 657,315 agent's warrants to its agents in connection with the Offering. These amounts were recorded as contributed surplus on the balance sheet.

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

|                         |           |
|-------------------------|-----------|
| Risk-free interest rate | 1.43%     |
| Expected volatility     | 61.40%    |
| Expected life           | 1.5 years |
| Expected dividend yield | nil       |

Option pricing models require the input of subjective assumptions including the expected price volatility, and expected option life. Changes in these assumptions may have a significant impact on the fair value calculation.