New Zealand Energy Corp.
Consolidated Financial Statements

December 31, 2011

(Expressed in Canadian Dollars)

MANAGEMENT'S REPORT

Management of New Zealand Energy Corp. (the "Corporation") 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 Corporation 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 fulfills 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"	*"Jeff Redmond"*
John G. Proust, Chief Executive Officer	Jeff Redmond, Chief Financial Officer

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, 2011 and December 31, 2010 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year and period ended December 31, 2011 and December 31, 2010 respectively, 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 audits 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, 2011 and December 31, 2010 and its financial performance and its cash flows for the year and period ended December 31, 2011 and December 31, 2010 respectively in accordance with International Financial Reporting Standards.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
April 25, 2012

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)

	December 31, 2011 $	December 31, 2010 $
Assets		
Current		
Cash and cash equivalents	16,144,609	6,193,317
Accounts and other receivables (Note 5)	1,683,663	36,333
Prepaid expenses	139,424	-
Inventories (Note 6)	1,325,649	-
	19,293,345	**6,229,650**
Deposit	11,768	11,450
Proprietary database (Note 7)	285,481	-
Property, plant and equipment (Note 8)	5,509,511	-
Exploration and evaluation assets (Note 9)	6,052,699	60,222
	31,152,804	**6,301,322**
Liabilities		
Current		
Accounts payable and accrued liabilities	1,185,746	127,624
Due to related parties (Note 10)	42,716	244,334
Current portion of asset retirement obligations (Note 11)	34,485	-
	1,262,947	371,958
Asset retirement obligations (Note 11)	120,429	-
	1,383,376	**371,958**
Shareholders' Equity		
Share capital (Note 12a)	33,827,912	5,921,500
Shares subscribed (Note 12a)	-	350,000
Foreign currency translation reserve	(82,895)	-
Contributed surplus	12,935,481	9,996,000
Accumulated deficit	(16,911,070)	(10,338,136)
	29,769,428	**5,929,364**
	31,152,804	**6,301,322**

Subsequent events (Note 16)

These consolidated financial statements are authorized for issuance by the Board of Directors on April 25, 2012.

On behalf of the Board of Directors

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

"Ken Truscott"
Ken Truscott, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Number of Shares	Share Capital $	Share Subscribed $	Contributed Surplus (stock-based payment) $	Contributed Surplus (agent's warrants) $	Foreign Currency Translation Reserve $	Accumulated Deficit $	Total Equity $
Balance at incorporation, October 29, 2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Common shares, at $0.0001 (Note 12a)	40,000,000	4,000	-	9,996,000	-	-	-	10,000,000
Common shares, at $0.25 (Note 12a)	23,670,000	5,917,500	-	-	-	-	-	5,917,500
Shares subscribed (Note 12a)	-	-	350,000	-	-	-	-	350,000
Total comprehensive loss for the period	-	-	-	-	-	-	(10,338,136)	(10,338,136)
Balance, December 31, 2010	**63,670,000**	**5,921,500**	**350,000**	**9,996,000**	**-**	**-**	**(10,338,136)**	**5,929,364**
Common shares, at $0.25 (Note 12a)	3,330,000	832,500	-	-	-	-	-	832,500
Common shares, at $0.75 (Note 12a)	7,010,000	5,257,500	-	-	-	-	-	5,257,500
Shares subscribed (Note 12a)	1,000,000	250,000	(350,000)	-	-	-	-	(100,000)
Shares issued on asset acquisition, at deemed price $0.50 (Note 12a)	2,000,000	-	-	1,000,000	-	-	-	1,000,000
Initial public offering, at $1.00 (Note 12a)	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 12a)	1,910,500	1,910,500	-	-	-	-	-	1,910,500
Share issue costs	-	(2,109,230)	-	-	-	-	-	(2,109,230)
Stock-based compensation – options (Note 12d)	-	-	-	1,716,018	-	-	-	1,716,018
Stock-based compensation – warrants (Note 12e)	-	(223,463)	-		223,463	-	-	-
Shares issued for resource properties acquisition	1,000,000	1,300,000	-	-	-	-	-	1,300,000
Net loss for the year	-	-	-	-	-	-	(6,572,934)	(6,572,934)
Other comprehensive loss for the year	-	-	-	-	-	(82,895)	-	(82,895)
Balance, December 31, 2011	**100,609,105**	**33,827,912**	**-**	**12,712,018**	**223,463**	**(82,895)**	**(16,911,070)**	**29,769,428**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	December 31, 2011 $	December 31, 2010 $
Revenues		
Oil sales	1,022,009	-
Royalties	(47,492)	-
	974,517	-
Expenses and other items		
Production costs	224,219	-
Depreciation and accretion	246,540	-
Talon-1 well impairment	2,544,131	-
Stock-based compensation (Note 12a & d)	2,203,548	9,996,000
General and administrative	2,583,530	338,469
Finance income	(119,583)	-
Foreign exchange gain	(134,934)	3,667
	7,547,451	10,338,136
Net loss for the year	(6,572,934)	(10,338,136)
Exchange difference on translation of foreign currency	(82,895)	-
Total comprehensive loss for the year	(6,655,829)	(10,338,136)
Basic and diluted loss per share	(0.08)	(0.24)
Weighted average shares outstanding	85,122,879	43,005,714

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	December 31, 2011 $	December 31, 2010 $
Operating activities		
Net loss for the year	(6,572,934)	(10,338,136)
Stock-based compensation	2,203,548	9,996,000
Depreciation and accretion	246,540	-
Foreign exchange gain	(134,934)	-
Talon-1 well impairment	2,544,131	-
Change in non-cash working capital items:		
Accounts and other receivables	(1,647,330)	(36,333)
Prepaid	(139,742)	-
Inventory	(1,325,649)	-
Due to related parties	(179,306)	222,022
Accounts payable and accrued liabilities	476,470	105,977
Cash used in operating activities	**(4,529,206)**	**(50,470)**
Investing activities		
Expenditures on resource properties	(11,056,200)	(16,263)
Acquisition of proprietary database	(326,927)	-
Purchase of computer equipment and furniture	(262,397)	-
Deposit	-	(11,450)
Cash used for investing activities	**(11,645,524)**	**(27,713)**
Financing activities		
Shares subscribed (Note 12a)	-	350,000
Cash returned for shares not issued	(100,000)	-
Shares issued (net of share issue cost)	26,579,876	5,921,500
Cash provided by financing activities	**26,479,876**	**6,271,500**
Effect of exchange rate changes on cash	(353,854)	-
Net increase in cash during the year	**10,305,146**	**6,193,317**
Cash, beginning of the year	**6,193,317**	**-**
Cash, end of the year	**16,144,609**	**6,193,317**
Supplemental cash flow disclosures		
Accounts payable related to resource property at December 31	603,326	21,647
Due to related parties related to resources property at December 31	-	22,312
Shares issued for resource properties acquisition	1,300,000	-
Interest income received included in operating activities	(119,583)	-

See accompanying notes to the consolidated financial statements.

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 "IPO") (Note 12a.ii), 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 9).

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" and on the OTCQX International Exchange under the symbol "NZERF".

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

Interest in Joint Venture

The Corporation owns a 50% working interest in a joint venture that conducts oil and gas exploration and development activities in the Alton Permit. The consolidated financial statements include the Corporation's share of the assets, liabilities and cash flows of the joint venture. The Corporation combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Corporation's financial statements. Income taxes are recorded based on the Corporation's share of the joint venture's activities.

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 revenues and 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.

The following discussion covers the most significant accounting judgments and estimates 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 of development and extracting 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. 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 (Note 9).

iii. 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 subjected to management’s judgment.

iv. Impairment indicators and calculation of impairment

At each reporting date, the Corporation assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment or a reduction in estimates of proved and probable reserves.

When management judges that circumstances indicate potential impairment, property, plant and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of CGUs are determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions that are subject to change as new information becomes available, including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs.

v. Asset retirement obligations

The calculation of asset retirement obligation includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, the risk-free 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 period may be material.

vi. Share-based compensation

The fair value of share-based compensation is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility and expected option life. Management considers all appropriate facts and circumstances in making its assessments including historical experience and comparisons to peers in the market. Changes in these assumptions may have a significant impact on the fair value calculation.

Foreign Currency Translation

i. Functional and presentation currency

Items included in the financial statements of each of the Corporation 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 Corporation is the Canadian dollar.

Transactions in foreign currencies are initially recorded in the Corporation’s functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities of the Corporation that are denominated in foreign currencies are re-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.

ii. Subsidiaries

The Corporation has assessed and determined a change of functional currency of its subsidiaries from Canadian dollar to New Zealand dollar, as this is the principal currency of the economic environment in which they operate.

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 income statement are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

Cash and Cash Equivalents

Cash comprises cash on hand and deposits held at banks. Cash equivalents consists of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which 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, tubular 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 are valued at the lower of the cost and net realizable value. Cost comprises operating expenses that have been incurred in bringing inventories to their present location and condition and the portion of depletion expense associated with the oil and condensate production. The cost of inventories is determined using the weighted average cost. 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 a 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 income or loss.

Property, Plant and Equipment

i. 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.

ii. Computer equipment and furniture

Computer equipment and furniture 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 property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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	20%

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

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 drilling, 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 sufficient data exist to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are 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 is 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.

Impairment of Non-financial Assets

Assets that are subject to depreciation are reviewed for impairment at each reporting date to determine where 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 income.

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 profit or loss.

Accounts Payable and Accrued Liabilities

Trade and other payables represent liabilities for goods and services provided to the Corporation prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions / Restoration Provisions

The Corporation 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 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 will be measured by applying the effective interest rate method. The amount will be recognized as an increase in the liability and accretion expense in the statement of comprehensive loss. 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 Corporation's estimates are reviewed at the end of each reporting period for such changes.

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.

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, net of any tax effects.

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.

Share-based Payments

The share option plan allows the Corporation's employees and consultants to acquire shares of the Corporation. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity settled share-based payments reserve 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. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Income Taxes

Any income tax provided on profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or 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 Corporation does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Loss per Share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the 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 makers, who are responsible for allocating resources and assessing performance of the operating segment, have been identified as the President and Chief Executive Officer.

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 the Corporation's accounting periods beginning on or after January 1, 2013. These include:

- IFRS 9 – Financial Instruments: Classification and Measurement (effective after January 1, 2015)
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangement
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

The Corporation is still in the process of assessing the impact of these standards on the financial statements.

3. FINANCIAL RISK MANAGEMENT

The Corporation'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 Corporation'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 Corporation.

This note presents information about the Corporation's exposure to each of these risks, the Corporation's objectives and processes for measuring and managing risk, and the Corporation's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

Credit Risk

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

Cash and cash equivalents consist of cash deposits that are primarily held with a Canadian chartered bank. All of the Corporation's production is sold directly to a major oil company. The Corporation has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition.

The carrying value of the Corporation's cash and cash equivalents and accounts and other receivables represent the maximum exposure to credit risk. There were no significant amounts past due or impaired as at December 31, 2011.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and other financial obligations as they fall due. The Corporation ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Corporation's holdings of cash and cash equivalents.

The following are the contractual maturities of financial liabilities at December 31, 2011:

	Less than 1 year $	2–5 years $	Thereafter $	Total $
Accounts payable and accrued liabilities	1,185,746	-	-	1,185,746
Due to related parties	42,716	-	-	42,716
Total	1,228,462	-	-	1,228,462

Foreign Exchange Risk

Foreign exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Corporation'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 currency denominated financial assets and liabilities which expose the Corporation to currency risk are as follows:

December 31, 2011

	United States Dollars $	**New Zealand Dollars** $
Cash and cash equivalents	1,816,581	3,950,666
Accounts and other receivables	1,191,427	494,966
Accounts payables and accrued liabilities	-	(1,381,175)
	3,008,008	3,064,457

December 31, 2010

	United States Dollars $	**New Zealand Dollars** $
Cash and cash equivalents	197,390	-
	197,390	-

The impact on the net loss of a 10% increase or decrease in United States Dollars on the Corporation's financial instruments based on balances at December 31, 2011 would be $322,000 ($20,000 at December 31, 2010). The impact on net loss of a 10% increase or decrease in New Zealand Dollars on the Corporation's financial instruments based on balances at December 31, 2011 would be $234,000 ($nil at December 31, 2010).

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 Corporation is exposed to interest rate fluctuations on its cash and cash equivalents, which bear a floating rate of interest. Sensitivity to a 1% increase or decrease in interest rate would affect the reported loss by approximately $161,000.

The Corporation has no debt that carries interest rate risk.

Price Risk

Price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of resources properties and the level of spending for future activities. Prices received by the Corporation for its production are largely beyond the Corporation's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of the Corporation's oil production is sold at spot rates, exposing the Corporation to the risk of price movements.

Fair Value

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

4. CAPITAL RISK MANAGEMENT

The Corporation's capital includes share capital, shares subscribed, contributed surplus and the cumulative deficit. The Corporation's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Corporation may issue new shares in order to meet its financial obligations.

(Expressed in Canadian Dollars)

5. ACCOUNTS AND OTHER RECEIVABLES

	December 31, 2011 $	December 31, 2010 $
Trade receivables	1,211,680	-
Other receivables	471,983	36,333
	1,683,663	36,333

6. INVENTORIES

	December 31, 2011 $	December 31, 2010 $
Materials and supplies	1,222,738	-
Oil inventories	102,911	-
	1,325,649	-

During 2011, $467,827 of inventory cost was expensed to the statement of comprehensive loss.

7. PROPRIETARY DATABASE

The proprietary database consists of 2D and 3D seismic models and geological files of the Taranaki and East Coast Basins.

	Seismic Models and Geological Data $
Cost	
Balance, December 31, 2010	-
Additions	326,927
Foreign currency translation adjustment	22,641
Balance, December 31, 2011	349,568
Accumulated amortization	
Balance, December 31, 2010	-
Amortization charge	63,636
Foreign currency translation adjustment	451
Balance, December 31, 2011	64,087
Net book value	
Balance, December 31, 2010	-
Balance, December 31, 2011	285,481

During 2011, $63,636 of amortization was capitalized to resources properties.

(Expressed in Canadian Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment $	**Furniture** $	**Oil and Gas Properties** $	**Total** $
Cost				
Balance, December 31, 2010	-	-	-	-
Additions	233,969	28,428	-	262,397
Transfer from resource properties	-	-	5,557,577	5,557,577
Foreign currency translation adjustment	2,734	1,969	-	4,703
Balance, December 31, 2011	236,703	30,397	5,557,577	5,824,677
Accumulated depreciation				
Balance, December 31, 2010	-	-	-	-
Depreciation and depletion charge	11,529	5,533	297,983	315,045
Foreign currency translation adjustment	82	39	-	121
Balance, December 31, 2011	11,611	5,572	297,983	315,166
Net book value				
Balance, December 31, 2010	-	-	-	-
Balance, December 31, 2011	225,092	24,825	5,259,594	5,509,511

During 2011, the Corporation determined that its Copper-Moki-1 well was technically feasible and commercially viable. Accordingly, exploration and evaluation assets of $5,557,577 were transferred to property, plant and equipment. The Copper-Moki-1 well commenced commercial production on December 10, 2011 and the oil and gas properties correspondingly were depreciated from this date onwards.

9. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand $	**East Coast Basin, New Zealand** $	**Total** $
Balance, October 29, 2010	-	-	-
Acquisition costs	-	10,713	10,713
Exploration costs			
Consulting	8,268	37,941	46,209
Geological and other	-	3,300	3,300
Balance, December 31, 2010	8,268	51,954	60,222
Acquisition cost	2,171,623	2,378,693	4,550,316
Exploration costs			
Consulting	354,351	-	354,351
Geological	-	39,827	39,827
Well development	8,133,464	499,017	8,632,481
Recoveries	(950,440)	-	(950,440)
Stock-based compensation capitalized	283,670	229,445	513,115
Other	435,994	435,070	871,064
Asset retirement cost	145,780	-	145,780
Transferred to property, plant and equipment	(5,557,577)	-	(5,557,577)
Talon-1 well impairment	(2,544,131)	-	(2,544,131)
Foreign currency translation adjustment	(3,167)	(59,142)	(62,309)
Balance, December 31, 2011	2,477,835	3,574,864	6,052,699

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 parties. Pursuant to the drilling 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.

On December 10, 2011, the Corporation announced that the Copper Moki-1 well has commenced commercial production. Accordingly, $5,557,577 of accumulated Exploration and Evaluation (“E&E”) costs were transferred to property, plant and equipment. Prior to this date, the Corporation has earned preproduction revenue of $950,440 from oil sales. This amount was recorded as cost recovery against the accumulated Exploration and Evaluation (“E&E”) costs.

As at December 31, 2011, the Corporation recorded an asset retirement obligation of $120,429 representing the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods (Note 11).

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 AUD2,000,000. 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 allow 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 (Note 16a).

During the year ended December 31, 2011, the Corporation incurred well development costs of $2,544,131 for drilling of the Talon-1 well. This amount was later written off as the Corporation does not believe that these costs will generate future economic benefits due to the geological assessment of the well results.

As at December 31, 2011, the Corporation recorded an asset retirement obligation of $34,485 representing the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods (Note 11).

(Expressed in Canadian Dollars)

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.

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.

10. 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:

	December 31, 2011 $	December 31, 2010 $
Salary and management fees	1,253,000	192,000
Share-based compensation	2,507,745	9,996,000

(Expressed in Canadian Dollars)

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

	December 31, 2011 $	December 31, 2010 $
Wexford Energy Ltd.("Wexford"), a private company controlled by the President	22,400	71,680
J. Proust & Associates Inc.("JPA"), a private company controlled by the CEO	-	143,360
Others	20,316	29,294
	42,716	244,334

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

When the initial permit applications were made by the Corporation for the Castlepoint and East Cap permits, certain directors of the Corporation provided personal financial guarantees to make sufficient resources available to East Coast Energy Ventures Limited and ECEV II Limited if those companies did 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. On April 24, 2012, the Corporation received notification that New Zealand Petroleum & Minerals have released the directors from their personal guarantees, in favour of replacement guarantees from the Corporation.

Employment and Consulting Agreements

The Corporation has entered into an amended and restated consulting agreement dated July 13, 2011 with the CEO and JPA. Pursuant to the agreement, the Corporation has agreed to pay:

a. $15,000 (plus HST) per month to JPA for providing the business advice, management and advisory services of the CEO commencing November 12, 2010;
b. $46,000 (plus HST) per month to JPA for providing the services of the Corporation's Chief Financial Officer, Corporate Secretary and Vice President Corporate and Legal Affairs and for finance, accounting and administrative services provided to the Corporation commencing December 31, 2010; and
c. $7,000 (plus HST) per month to JPA for providing the services of the Corporation's Vice President Communications and Investor Relations commencing July 11, 2011.

Amounts paid to JPA were included in salary and management fees, other than some immaterial amounts related to administrative services.

The Corporation has entered into an amended consulting agreement with Wexford and the President, pursuant to which it has agreed to pay Wexford $20,000 (plus HST) per month for management services provided to the Corporation.

The Corporation has entered into a consulting agreement with Vice President, Engineering (the "VPxE"), pursuant to which it has agreed to pay VPxE $15,000 (plus HST) per month for consulting services provided to the Corporation.

(Expressed in Canadian Dollars)

The Corporation has entered into an employment agreement effective March 1, 2011 with the Chief Operating Officer (the "COO"), pursuant to which it has agreed to pay the COO $15,000 per month for management services provided to the Corporation.

IRBA Agreement

The Corporation entered into an asset purchase agreement with Ian R. Brown Associates Limited ("IRBA"), a private company owned by the COO, pursuant to which the Corporation acquired certain of IRBA's assets, including geological data, office equipment, personnel and an office lease in Wellington, New Zealand. In consideration for the transfer of the assets, the Corporation paid $400,000 and issued 2,000,000 common shares to IRBA, at a deemed price of $0.50 per common share (Note 12a).

11. ASSET RETIREMENT OBLIGATIONS

The Corporation'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 its asset retirement obligations is approximately NZ$210,000, of which approximately NZ$50,000 is expected to be incurred by the end of 2012 and the remaining balance of NZ$160,000 is expected to be incurred after 2013.

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

	$
Balance, December 31, 2010	-
Liabilities incurred during the year	143,229
Accretion expense for the year	2,932
Foreign currency translation adjustment	8,753
Balance, December 31, 2011	154,914

12. SHARE CAPITAL

a. Details of issuances of common shares

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

ii. On August 3, 2011, the Corporation closed its IPO. Pursuant to the IPO, 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 IPO was completed through a syndicate of agents (the "Agents").

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

iv. In connection to the IPO and the over-allotment option related to the IPO, the Corporation paid its Agents $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.

(Expressed in Canadian Dollars)

v. During the year ended December 31, 2011, the Corporation incurred $286,805 of professional fees related to the IPO and recorded them as share issue costs within equity.

vi. During the year ended December 31, 2011, the Corporation issued 1,000,000 common shares at $1.30 per common share for a resource property acquisition.

vii. On February 11, 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 way of private placements. The Corporation also issued 2,000,000 common shares, in escrow shares, to IRBA at a deemed price of $0.50 per share pursuant to an asset purchase agreement dated February 21, 2011. As a result, $1,000,000 of stock-based compensation was expensed during the year ended December 31, 2011.

viii. 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 year ended December 31, 2011.

ix. 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, an escrow agreement and a pooling agreement, 46,394,334 common shares owned or controlled by certain directors and officers of the Corporation were escrowed at August 3, 2011. Subsequent to year end, all officers and directors entered into voluntary lock-up agreements, in conjunction with the March 2012 financing, whereby they agreed not to deal in the Corporation securities on or before July 19, 2012 or 120 days after the completion of the March 2012 financing (Note 16b). 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
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
Total	46,394,334

(Expressed in Canadian Dollars)

c. Supplementary escrowed shares

In accordance with a supplementary pooling agreement, 31,945,666 additional common shares not owned or controlled by certain directors and officers of the Corporation were escrowed at the August 3, 2011. The shares will be released over 12 months from the August 3, 2011 as follows:

Release date	Number of common shares
August 3, 2011	7,693,266 (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 (released)
February 3, 2012	5,211,500 (released)
May 3, 2012	5,211,500
August 3, 2012	5,211,500
Total	31,945,666

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 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 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. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

A continuity of share purchase options for the year ended December 31, 2011 is as follows:

Expiry date	Exercise price	December 31, 2010	Granted	(Cancelled)	December 31, 2011	Exercisable
August 3, 2016	$1.00	-	4,828,000	-	4,828,000	-
October 16,2016	$1.00	-	20,000	-	20,000	-
December 1, 2016	$1.00	-	450,000	-	450,000	-
Total		-	5,298,000	-	5,298,000	-
Weighted average exercise price			$1.00	-	$1.00	-
Weighted average remaining contractual life (years)		-			4.55	

The total expense relating to share purchase options incurred for the year ended December 31, 2011 was $1,716,018 of which $1,203,548 has been expensed in the statement of comprehensive loss and $512,470 has been capitalized to resources properties.

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

	2011	2010
Risk-free interest rate	1.85%	n/a
Expected volatility	119.56%	n/a
Expected life	5 years	n/a
Expected dividend yield	nil	n/a

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.

(Expressed in Canadian Dollars)

e. Agent's warrants

The Corporation has granted warrants to purchase common shares. A continuity of Agent's warrants for the year ended December 31, 2011 is as follows:

Expiry date	Exercise price	December 31, 2010	Granted	Exercised (Cancelled)	December 31, 2011	Exercisable
February 3, 2013	$1.00	-	600,000	-	600,000	600,000
February 3, 2013	$1.00	-	57,315	-	57,315	57,315
Total		-	657,315	-	657,315	657,315
Weighted average exercise price			$1.00	-	$1.00	$1.00
Weighted average remaining contractual life (years)		-			1.10	

During the year ended December 31, 2011, the Corporation recorded share issuance costs 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 using the Black-Scholes option pricing model:

	2011	2010
Risk-free interest rate	1.88%	n/a
Expected volatility	61.40%	n/a
Expected life	1.5 years	n/a
Expected dividend yield	nil	n/a

13. INCOME TAX

A reconciliation of the income tax benefit determined by applying the Canadian income tax rates to the consolidated loss for the year ended December 31, 2011 and 2010 has been prepared as follows:

	2011 $	**2010 $**
Loss before income taxes	6,572,934	10,338,136
Income tax recovery at statutory rates	(1,741,828)	(2,946,369)
Permanent difference – stock-based compensation	719,744	2,848,860
Effect of tax rates in other jurisdictions	426,977	92
Change in statutory tax rate	(186,915)	11,883
Unrecognized tax assets	1,441,237	85,534
Others	(659,215)	-
Deferred income tax expense	-	-

(Expressed in Canadian Dollars)

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

	December 31, 2011 $	**December 31, 2010 $**
Deferred income tax assets (liabilities)		
Non-capital losses available for future periods	4,004,535	100,590
Resources property	(1,551,171)	(15,056)
Property, plant and equipment	(1,347,938)	-
Share issue costs	421,346	-
Unrecognized deferred tax assets	(1,526,772)	(85,534)
	-	-

The above losses available for future years have been determined by applying a Canadian income tax rate of 26.5% and a New Zealand tax rate of 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.

Subject to certain restrictions, the Corporation has operating losses available to reduce future taxable income as follows:

	Canada	**Foreign $**	**Total $**
Expiring – 2030 to 2031	3,090,153	-	3,090,153
Carry-forward indefinitely	-	12,927,986	12,927,986
Total	3,090,153	12,927,986	16,018,139

14. SEGMENTED INFORMATION

The Corporation 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.

15. COMMITMENTS

a. The Corporation participates in oil and gas acquisition, exploration, development and production activities and is contractually committed under various agreements to complete certain exploration programs. The Corporation's management estimates that the total commitments for fiscal 2012 under its current permits held at December 31, 2011 are as follows:

Oil and Gas Property	Working Interest %	Work Commitment or Obligation to December 31, 2012 $
PEP 51150 Eltham	100	5,914,000
PEP 52694 Castlepoint	100	2,081,000
PEP 38342 Ranui	100	1,400,000
PEP 51551 Alton	50	2,485,000
Total		11,880,000

In addition to the above estimated commitments for the year ending December 31, 2012, the Corporation will be required to incur further expenditures over the 5 year period which commenced during the period ended December 31, 2010 in order to maintain its permits in good standing.

The Corporation may choose to alter the exploration programs, request extensions, and reject development costs, relinquish certain permits or farm out its interest in permits where practical.

The Corporation's total commitments include those that are required to be incurred to maintain its permits in good standing during the current permit term, prior to the Corporation's committing to the next stage of the permit term where additional expenditure would be required.

16. SUBSEQUENT EVENTS

a. On February 21, 2012, the Corporation announced that it had entered into a farm-in agreement with L&M pursuant to which the Corporation will earn an additional 15% interest in the Alton Permit, increasing the Corporation's interest to 65%, by funding the collection and processing of 3D seismic data over approximately 50km^2 of the permit.

b. On March 24, 2012, the Corporation closed a bought deal financing and overallotment of 21,160,000 common shares at a price of $3.00 per common share for gross proceeds of $63,480,000. The Corporation paid its Agent a finder's fee of $3,808,800.

c. The Corporation granted share purchase options to officers, employees and consultants to purchase an aggregate of 648,000 common shares exercisable at $1.30 to $3.00 for a period of five years.

d. On April 24, 2012, the Corporation entered into a drilling agreement with Ensign International Energy Services Pty Ltd. ("Ensign") pursuant to which Ensign has committed to drill three exploration wells in the second half of 2012, with the option for up to five additional wells.