



**Second Quarter 2012
Condensed Consolidated Interim Financial Statements**

June 30, 2012

(Expressed in Canadian Dollars)

New Zealand Energy Corp.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Expressed in Canadian Dollars)
(Unaudited)

	June 30, 2012 \$	December 31, 2011 \$
Assets		
Current		
Cash and cash equivalents	52,228,717	16,144,609
Accounts and other receivables (Note 3)	4,194,764	1,683,663
Prepaid expenses	167,907	139,424
Inventories (Note 4)	2,614,271	1,325,649
	59,205,659	19,293,345
Deposit (Note 5)	5,086,768	11,768
Proprietary database	473,805	285,481
Property, plant and equipment (Note 6)	8,674,152	5,509,511
Exploration and evaluation assets (Note 7)	25,373,718	6,052,699
	98,814,102	31,152,804
Liabilities		
Current		
Accounts payable and accrued liabilities	5,320,688	1,185,746
Due to related parties (Note 8)	5,072	42,716
Current portion of asset retirement obligations (Note 9)	35,864	34,485
	5,361,624	1,262,947
Asset retirement obligations (Note 9)	375,871	120,429
	5,737,495	1,383,376
Shareholders' equity		
Share capital (Note 10)	93,153,117	33,827,912
Foreign currency translation reserve	736,576	(82,895)
Contributed surplus	14,800,508	12,935,481
Accumulated deficit	(15,613,594)	(16,911,070)
	93,076,607	29,769,428
	98,814,102	31,152,804

These consolidated financial statements are authorized for issuance by the Board of Directors on August 29, 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 condensed consolidated interim financial statements.

New Zealand Energy Corp.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Shares	Share Capital	Shares Subscribed	Contributed Surplus (stock-based payment)	Contributed Surplus (advisors warrants)	Foreign Currency Translation Reserve	Accumulated Deficit	Total Equity
		\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2011	100,609,105	33,827,912	-	12,712,018	223,463	(82,895)	(16,911,070)	29,769,428
Common shares, at \$3.00 (Note 10a)	21,160,000	63,480,000	-	-	-	-	-	63,480,000
Share issuance cost	-	(4,154,795)	-	-	-	-	-	(4,154,795)
Stock-based compensation	-	-	-	1,865,027	-	-	-	1,865,027
Net income for the period	-	-	-	-	-	-	1,297,476	1,297,476
Other comprehensive income for the period	-	-	-	-	-	819,471	-	819,471
Balance, June 30, 2012	121,769,105	93,153,117	-	14,577,045	223,463	736,576	(15,613,594)	93,076,607
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 10a)	3,330,000	832,500	-	-	-	-	-	832,500
Common shares, at \$0.75 (Note 10a)	7,010,000	5,257,500	-	-	-	-	-	5,257,500
Shares subscribed	1,000,000	250,000	(350,000)	-	-	-	-	(100,000)
Shares issued on asset acquisition, at deemed price \$0.50 (Note 10a)	2,000,000	-	-	1,000,000	-	-	-	1,000,000
Net loss for the period	-	-	-	-	-	-	(2,920,513)	(2,920,513)
Other comprehensive loss for the period	-	-	-	-	-	268,235	-	268,235
Balance, June 30, 2011	77,010,000	12,261,500	-	10,996,000	-	268,235	(13,258,649)	10,267,086

See accompanying notes to the condensed consolidated interim financial statements.

New Zealand Energy Corp.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30, 2012 \$	Three months ended June 30, 2011 \$	Six months ended June 30, 2012 \$	Six months ended June 30, 2011 \$
Revenues				
Oil sales	6,206,749	-	10,294,425	-
Royalties	(295,756)	-	(474,749)	-
	5,910,993	-	9,819,676	-
Expenses and other items				
Production costs	1,305,452	-	2,076,761	-
Depreciation and accretion	1,519,447	11,682	2,442,280	22,093
Stock-based compensation (Note 10a and Note 10d)	467,875	-	1,047,105	1,000,000
General and administrative (Note 11)	1,007,617	1,102,503	2,268,753	1,928,626
Transaction costs	200,779	-	200,779	-
Finance income	(140,315)	(19,222)	(158,626)	(26,676)
Foreign exchange loss	615,552	(5,140)	645,148	(3,530)
	4,976,407	1,089,823	8,522,200	2,920,513
Net income (loss) for the period	934,586	(1,089,823)	1,297,476	(2,920,513)
Exchange difference on translation of foreign currency	383,329	316,299	819,471	268,235
Total comprehensive income (loss) for the period	1,317,915	(773,524)	2,116,947	(2,652,278)
Basic earnings (loss) per share	0.01	(0.01)	0.01	(0.04)
Diluted earnings (loss) per share	0.01	(0.01)	0.01	(0.04)
Weighted average shares outstanding	121,769,105	77,010,000	112,351,742	74,584,365
Diluted weighted average shares outstanding	122,843,464	77,010,000	113,427,285	74,584,365

See accompanying notes to the condensed consolidated interim financial statements.

New Zealand Energy Corp.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30, 2012 \$	Three months ended June 30, 2011 \$	Six months ended June 30, 2012 \$	Six months ended June 30, 2011 \$
Operating activities				
Net income (loss) for the period	934,586	(1,089,823)	1,297,476	(2,920,513)
Stock-based compensation	467,875	-	1,047,105	1,000,000
Depreciation and accretion	1,519,447	11,682	2,442,280	22,093
Foreign exchange loss	615,552	(5,141)	645,148	(3,530)
Change in non-cash working capital items				
Accounts and other receivables	(1,220,870)	489,590	(2,511,101)	(171,317)
Prepaid expenses	(10,556)	(56,248)	(9,103)	(80,983)
Inventories	60,433	-	(1,242,680)	-
Due to related parties	(17,368)	19,932	(37,645)	(177,012)
Accounts payable and accrued liabilities	1,313,210	(4,341)	1,827,320	145,762
Cash provided by (used in) operating activities	3,662,309	(634,349)	3,458,800	(2,185,500)
Investing activities				
Expenditures on resource properties	(15,392,939)	(1,299,197)	(18,998,670)	(4,274,457)
Acquisition of proprietary database	-	-	(135,951)	(326,927)
Purchase of property and equipment	(1,074,635)	-	(2,180,634)	(67,912)
Deposit (Note 5)	(5,075,000)	-	(5,075,000)	3,074
Cash used for investing activities	(21,542,574)	(1,299,197)	(26,390,255)	(4,666,222)
Financing activities				
Shares subscribed	-	-	-	(100,000)
Shares issued (net of share issuance cost)	(131,301)	-	59,325,205	6,090,000
Cash provided by (used in) financing activities	(131,301)	-	59,325,205	5,990,000
Effect of exchange rate changes on cash	(258,089)	60,242	(309,642)	10,520
Net increase (decrease) in cash during the period	(18,011,566)	(1,933,546)	36,393,750	(861,722)
Cash, beginning of the period	70,498,372	7,215,419	16,144,609	6,193,317
Cash, end of the period	52,228,717	5,342,115	52,228,717	5,342,115
Supplemental cash flow disclosures				
Accounts payable related to resource properties at June 30, 2012	2,910,948	-	2,910,948	-

See accompanying notes to the condensed consolidated interim financial statements.

New Zealand Energy Corp.
Notes to Condensed Consolidated Interim Financial Statements
June 30, 2012
(Expressed in Canadian Dollars)

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 production, exploration and development of conventional and unconventional oil and natural gas resources in New Zealand.

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 Presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The Corporation has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended December 31, 2011.

These condensed consolidated interim financial statements were approved for issuance by the Corporation's Board of Directors on August 29, 2012.

3. ACCOUNTS AND OTHER RECEIVABLES

	June 30, 2012 \$	December 31, 2011 \$
Trade receivables	2,729,918	1,211,680
Other receivables	1,464,846	471,983
	4,194,764	1,683,663

New Zealand Energy Corp.
Notes to Condensed Consolidated Interim Financial Statements
June 30, 2012
(Expressed in Canadian Dollars)

4. INVENTORIES

	June 30, 2012 \$	December 31, 2011 \$
Materials and supplies	2,443,326	1,222,738
Oil inventories	170,945	102,911
	2,614,271	1,325,649

During the six-month period ended June 30, 2012, \$2,076,760 (June 30, 2011: \$nil) of inventory cost was expensed to the statement of comprehensive income (loss). During the three-month period ended June 30, 2012, \$383,818 (June 30, 2011: \$nil) of inventory cost was expensed to the statement of comprehensive income (loss).

5. DEPOSIT

The Corporation has entered into a binding agreement (the "Origin Agreement") with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited (collectively "Origin") to acquire upstream and midstream assets (the "Acquisition"). These assets include four Petroleum Mining Licenses totalling 26,907 acres in the main Taranaki Basin production fairway (the "Petroleum Licenses") as well as the Waihapa Production Station and associated gathering and sales infrastructure.

Under the terms of the Origin Agreement, and pursuant to an exclusive arrangement, the Corporation has agreed to pay Origin consideration in the amount of \$42 million in cash, payable in the US\$ equivalent at a fixed C\$/US\$ exchange rate of 1.0349, and such other adjustments as may be required at closing. A \$5 million non-refundable deposit was paid with the remainder due on closing, which is anticipated to occur in Q4-2012. Closing of the Acquisition is contingent on receiving government approvals, Origin completing the current recommissioning of the TAWN LPG extraction facility, Origin and/or NZEC entering into an agreement with Contact Energy regarding ongoing operation of Contact's Ahuroa gas storage facility, and standard TSX Venture Exchange approvals.

Upon announcing the Origin Acquisition, NZEC set aside funds for the transaction by converting Canadian dollar cash balances to US\$26 million, which was deposited into a US\$ bank account to protect the Corporation against currency fluctuations. The remaining approximately US\$9.8 million outstanding and due upon closing will be funded from operational cash flows, which are received in US\$.

New Zealand Energy Corp.
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6. PROPERTY, PLANT AND EQUIPMENT

	Furniture, Equipment and Fixture \$	Land and Building \$	Oil and Gas Properties \$	Total \$
Cost				
Balance, December 31, 2010	-	-	-	-
Additions	262,397	-	-	262,397
Transfer from exploration and evaluation assets	-	-	5,557,577	5,557,577
Foreign currency translation adjustment	4,703	-	-	4,703
Balance, December 31, 2011	267,100	-	5,557,577	5,824,677
Additions	1,194,570	985,610	746,747	2,926,927
Reclassification	(148,225)	-	-	(148,225)
Transfer exploration and evaluation assets	-	-	2,766,733	2,766,733
Foreign currency translation adjustment	22,441	(7,817)	133,929	148,553
Balance, June 30, 2012	1,335,886	977,793	9,204,986	11,518,665
Accumulated depreciation				
Balance, December 31, 2010	-	-	-	-
Depreciation and depletion charge	17,062	-	297,983	315,045
Foreign currency translation adjustment	121	-	-	121
Balance, December 31, 2011	17,183	-	297,983	315,166
Depreciation and depletion charge	23,958	-	2,478,727	2,502,685
Foreign currency translation adjustment	590	-	26,072	26,662
Balance, June 30, 2012	41,731	-	2,802,782	2,844,513
Net book value				
Balance, December 31, 2011	249,917	-	5,259,594	5,509,511
Balance, June 30, 2012	1,294,155	977,793	6,402,204	8,674,152

- a) During 2011, the Corporation determined that its Copper Moki-1 well was economically 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 property correspondingly was depreciated from this date onwards.
- b) During the period ended June 30, 2012, the Corporation determined that its Copper Moki-2 well was economically viable. Accordingly, exploration and evaluation assets of \$2,766,733 were transferred to property, plant and equipment. The Copper-Moki-2 well commenced commercial production on April 1, 2012 and the oil and gas property correspondingly was depreciated from this date onwards.

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7. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand \$	East Coast Basin, New Zealand \$	Total \$
Balance, December 31, 2010	8,268	51,954	60,222
Additions	11,524,882	3,582,052	15,106,934
Recoveries	(950,440)	-	(950,440)
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
Additions	19,849,395	3,997,252	23,846,647
Recoveries	(2,110,910)	-	(2,110,910)
Transferred to property, plant and equipment	(2,766,733)	-	(2,766,733)
Foreign currency translation adjustment	240,391	111,624	352,015
Balance, June 30, 2012	17,689,978	7,683,740	25,373,718

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

8. 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 June 30, 2012 \$	Three months ended June 30, 2011 \$	Six months ended June 30, 2012 \$	Six months ended June 30, 2011 \$
Salary and management fees	354,000	344,850	728,150	548,850
Share-based compensation	627,835	-	1,398,488	1,000,000

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

	June 30, 2012 \$	December 31, 2011 \$
Wexford Energy Ltd. ("Wexford"), a private company controlled by the President	-	22,400
J. Proust & Associates Inc. ("JPA"), a private company controlled by the Chief Executive Officer ("CEO")	-	-
Others	5,072	20,316
	5,072	42,716

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.

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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 the General Manager Upstream Operations (the "GMUO"), pursuant to which it has agreed to pay the GMUO \$15,000 (plus HST) per month for consulting services provided to the Corporation.

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.

9. 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\$530,000, of which approximately NZ\$50,000 is expected to be incurred by the end of 2012 and the remaining balance of NZ\$480,000 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
Liabilities incurred during the period	\$	248,344
Accretion expense for the period		3,293
Foreign currency translation adjustment		5,184
Balance, June 30, 2012	\$	411,735

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As at June 30, 2012, the current portion of asset retirement obligations is \$35,864.

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

b. Escrowed shares

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

Release date	Number of common shares
August 3, 2011	200,000 (released)
February 3, 2012	300,000 (released)
July 19, 2012	5,853,934 (released)
August 3, 2012	6,773,400 (released)
February 3, 2013	8,851,200
August 3, 2013	8,851,200
February 3, 2014	8,851,200
August 3, 2014	6,713,400
Total	46,394,334

d. Share purchase options

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, or 12,176,910 options, based on the total issued and outstanding common shares as at June 30, 2012. Such options can be exercisable for a maximum of 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.

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A continuity of share purchase options for the period ended June 30, 2012 is as follows:

Expiry date	Exercise price	Outstanding options December 31, 2011	Granted	(Cancelled)	Outstanding options June 30, 2012	Exercisable
August 3, 2016	\$1.00	4,828,000	-	-	4,828,000	1,207,000
October 16, 2016	\$1.00	20,000	-	-	20,000	5,000
December 1, 2016	\$1.00	450,000	-	-	450,000	-
January 18, 2017	\$1.30	-	523,000	-	523,000	-
March 6, 2017	\$3.00	-	125,000	-	125,000	-
April 25, 2017	\$3.00	-	176,000	-	176,000	-
Total		5,298,000	824,000	-	6,122,000	1,212,000
Weighted average exercise price		\$1.00	\$1.92	-	\$1.12	\$1.00
Weighted average remaining contractual life (years)		4.55			4.19	

The total expense relating to share purchase options incurred for the period ended June 30, 2012 was \$1,865,027 of which \$1,047,105 has been expensed in the statement of comprehensive income (loss) and \$817,921 has been capitalized to exploration and evaluation assets.

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

	2012	2011
Risk-free interest rate	1.26%	1.85%
Expected volatility	119.57%	119.56%
Expected life	5 years	5 years
Expected dividend yield	nil	nil

Option pricing models require the input of subjective assumptions including the expected price volatility, and expected option life. Management has calculated expected price volatility using data from comparable companies in the industry. Changes in these assumptions may have a significant impact on the fair value calculation.

e. Advisors warrants

The Corporation has granted warrants to advisors in connection with the IPO to purchase common shares. A continuity of advisors warrants for the period ended June 30, 2012 is as follows:

Expiry date	Exercise price	December 31, 2011	Granted	Exercised (Cancelled)	June 30, 2012	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			0.60	

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 advisors warrants to its advisors in connection with the IPO. These amounts were recorded as contributed surplus on the balance sheet. No advisors warrants were issued during the period ended June 30, 2012.

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

	2012	2011
Risk-free interest rate	n/a	1.88%
Expected volatility	n/a	61.40%
Expected life	n/a	1.5 years
Expected dividend yield	n/a	nil

11. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30, 2012 \$	Three months ended June 30, 2011 \$	Six months ended June 30, 2012 \$	Six months ended June 30, 2011 \$
Professional fees	279,919	278,901	363,576	574,642
Management fees	267,736	203,890	555,162	453,232
Consulting fees	21,629	213,674	558,227	273,363
Travel and promotion	277,972	140,493	437,801	215,763
Administrative expenses	97,891	193,369	145,768	297,480
Rent	20,948	34,240	41,391	56,857
Filing and transfer agent fees	25,031	27,625	133,263	35,890
Insurance	16,491	10,311	33,565	16,495
General exploration	-	-	-	4,904
	1,007,617	1,102,503	2,268,753	1,928,626