New Zealand Energy Corp.
Consolidated Financial Statements

December 31, 2012

(Expressed in Canadian Dollars)

MANAGEMENT'S REPORT

Management of New Zealand Energy Corp. (the "Company") is responsible for the reliability and integrity of the consolidated financial statements, and the notes to the consolidated financial statements.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that management make estimates and assumptions and use judgement. When alternate accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, were appointed by shareholders as the external auditor of the Company to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management 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"	*"Chris J. Ferguson"*
John G. Proust, Chief Executive Officer	Chris J. Ferguson, Chief Financial Officer

April 22, 2013

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. which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of changes in equity, comprehensive income (loss) and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 judgement, 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 New Zealand Energy Corp. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

PricewaterhouseCoopers LLP
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CONSOLIDATED BALANCE SHEETS
As at December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	2012	2011
Assets		
Current		
Cash and cash equivalents	5,983,121	16,144,609
Accounts and other receivables (Note 5)	4,097,130	1,683,663
Deposit – short term (Note 6)	35,833,232	-
Prepaid expenses	247,511	139,424
Inventories (Note 7)	2,976,643	1,325,649
	49,137,637	**19,293,345**
Deposit – long term (Note 6)	5,277,217	11,768
Proprietary database (Note 8)	397,601	285,481
Property, plant and equipment (Note 9)	23,867,758	5,509,511
Exploration and evaluation assets (Note 10)	37,379,726	6,052,699
	116,059,939	**31,152,804**
Liabilities		
Current		
Accounts payable and accrued liabilities	10,392,433	1,228,462
Operating line of credit (Note 11)	10,451,359	-
Current portion of asset retirement obligations (Note 12)	-	34,485
	20,843,792	**1,262,947**
Asset retirement obligations (Note 12)	2,598,840	120,429
	23,442,632	**1,383,376**
Shareholders' equity		
Share capital (Note 13)	93,153,117	33,827,912
Foreign currency translation reserve	1,762,786	(82,895)
Contributed surplus	17,693,647	12,935,481
Accumulated deficit	(19,992,243)	(16,911,070)
	92,617,307	**29,769,428**
	116,059,939	**31,152,804**

Commitments (Note 17)
Subsequent events (Note 19)

These consolidated financial statements are authorized for issuance by the Board of Directors on April 22, 2013.

On behalf of the Board of Directors

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

"John A. Greig"
John A. Greig, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	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 13(a))	21,160,000	63,480,000	-	-	-	-	-	63,480,000
Share issuance cost	-	(4,154,795)	-	-	-	-	-	(4,154,795)
Stock-based compensation (Note 13(c))	-	-	-	4,758,166	-	-	-	4,758,166
Net loss for the year	-	-	-	-	-	-	(3,081,173)	(3,081,173)
Other comprehensive income for the year	-	-	-	-	-	1,845,681	-	1,845,681
Balance, December 31, 2012	**121,769,105**	**93,153,117**	**-**	**17,470,184**	**223,463**	**1,762,786**	**(19,992,243)**	**92,617,307**
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	3,330,000	832,500	-	-	-	-	-	832,500
Common shares, at $0.75	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	2,000,000	-	-	1,000,000	-	-	-	1,000,000
Initial public offering, at $1.00	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	1,910,500	1,910,500	-	-	-	-	-	1,910,500
Share issue costs	-	(2,109,230)	-	-	-	-	-	(2,109,230)
Stock-based compensation – options (Note 13(c))	-	-	-	1,716,018	-	-	-	1,716,018
Stock-based compensation – warrants (Note 13(d))	-	(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 INCOME (LOSS)
For the years ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	2012	2011
Revenues		
Oil sales	17,295,853	1,022,009
Royalties	(819,882)	(47,492)
	16,475,971	974,517
Expenses and other items		
Production costs	5,116,059	224,219
Depreciation and accretion	4,103,405	246,540
Impairment – Talon-1 well	-	2,544,131
Stock-based compensation (Note 13(c))	1,594,780	2,203,548
General and administrative (Note 15)	5,896,949	2,583,530
Finance income	(211,551)	(119,583)
Foreign exchange loss (gain)	1,895,845	(134,934)
Transaction cost	1,161,657	-
	19,557,144	7,547,451
Net loss for the year	**(3,081,173)**	**(6,572,934)**
Exchange difference on translation of foreign currency	1,845,681	(82,895)
Total comprehensive loss for the year	**(1,235,492)**	**(6,655,829)**
Basic and diluted loss per share	(0.03)	(0.08)
Weighted average shares outstanding	117,131,297	85,122,879

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	2012	2011
Operating activities		
Net loss for the year	(3,081,173)	(6,572,934)
Stock-based compensation	1,594,780	2,203,548
Depreciation and accretion	4,103,405	246,540
Foreign exchange loss	1,501,200	(134,934)
Resource property write-offs	-	2,544,131
Change in non-cash working capital items		
Accounts and other receivables	(2,332,589)	(1,647,330)
Prepaid expenses	(111,408)	(139,742)
Short term deposit	(1,012,795)	-
Inventories	(1,564,149)	(1,325,649)
Accounts payable and accrued liabilities	2,381,651	297,164
Cash provided by (used in) operating activities	**1,478,922**	**(4,529,206)**
Investing activities		
Expenditures on resource properties	(32,677,542)	(11,056,200)
Term deposit	(35,038,927)	-
Purchase of proprietary database	(124,423)	(326,927)
Purchase of property and equipment	(7,973,276)	(262,397)
Deposit (Note 6)	(5,087,158)	-
Cash used in investing activities	**(80,901,326)**	**(11,645,524)**
Financing activities		
Cash returned for shares not issued	-	(100,000)
Shares issued (net of share issuance cost)	59,325,205	26,579,876
Operating line of credit	10,438,973	-
Cash provided by financing activities	**69,764,178**	**26,479,876**
Net (decrease) increase in cash and cash equivalents during the year	**(9,658,226)**	**10,305,146**
Effect of exchange rate changes on cash	(503,262)	(353,854)
Cash and equivalents, beginning of the year	**16,144,609**	**6,193,317**
Cash and equivalents, end of the year	**5,983,121**	**16,144,609**
Supplemental cash flow disclosures		
Accounts payable related to exploration and evaluation assets at December 31	(7,371,170)	(603,326)

See accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

New Zealand Energy Corp. (the “Company”) commenced operations on April 19, 2010 through its now wholly-owned subsidiary, East Coast Energy Ventures Limited. The Company was subsequently incorporated 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 Company, through its subsidiaries, is engaged in the production, exploration and development of conventional and unconventional oil and natural gas resources in New Zealand.

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

The Company’s shares are listed on the TSX Venture Exchange under the symbol “NZ” and on the OTCQX International Exchange under the symbol “NZERF”.

2. 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 Company 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, Waihapa Production Service Limited (formerly New Zealand Offshore Ventures Ltd), Taranaki Venture II Limited, NZEC Tariki Ltd, NZEC Ngaere Ltd, NZEC Ahuroa Ltd, NZEC Waihapa Ltd, and NZEC Wairoa Ltd. Control exists when the Company 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 Arrangement

The Company owns a 65% working interest in a joint arrangement that conducts oil and gas exploration and development activities on the Alton Permit, a 60% working interest in a joint arrangement that the Company entered into on the Manaia Permit, and is awaiting government approval of an 80% interest in the Wairoa permit. The consolidated financial statements include the Company’s share of the assets, liabilities and cash flows of the joint arrangement. The Company combines its share of the joint arrangements’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company’s financial statements. Income taxes are recorded based on the Company’s share of the joint arrangement’s activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgements

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

a) Significant accounting estimates and assumptions

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

i) Oil and gas reserve determination

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

ii) Asset retirement obligations

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

iii) Income tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgements (continued)

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

i) Exploration and evaluation assets

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

ii) Determination of cash generating-units ("CGUs")

Oil and gas properties, resources properties and other corporate assets are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality, and are subjected to management's judgement.

iii) Impairment indicators and calculation of impairment

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of property, plant and equipment are not recoverable, or impaired.

When exploration and evaluation assets are determined to be technically feasible and commercially viable, the accumulative costs are transferred to property, plant and equipment. Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amounts. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, 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.

Foreign Currency Translation

a) Functional and presentation currency

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

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated to the functional currency at the exchange rate prevailing at the end of each reporting period. Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency and are translated using the exchange rate at the date of the transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation (continued)

b) Subsidiaries

The functional currency of the Company's Singapore holding company, NZ Holdings Pte. Ltd., is the US dollar ("US$").

The Company has assessed and determined a change of functional currency of its New Zealand subsidiaries from Canadian dollar to New Zealand dollar ("NZ$") effective January 1, 2011, 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.

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

Cash and Cash Equivalents

Cash is comprised of cash on hand and deposits held at banks. Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and 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, tubulars and explosives purchased for use in oil and gas operations and are valued at the lower of cost, or net realizable value. The costs of purchase of material and supply inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to their acquisition.

Oil inventories are valued at the lower of the cost and net realizable value. Cost is comprised of operating expenses that have been incurred in bringing inventories to their present location and condition and the portion of depletion expense associated with oil and condensate production. The cost of inventories is determined using the weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Database

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

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

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

Property, Plant and Equipment

a) Oil and gas properties

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. These costs include proved property acquisitions, development drillings, completion of wells, gathering facilities and infrastructure, asset retirement costs and transfers from exploration and evaluation assets where technical feasibility and commercial viability has been determined.

The net carrying value of oil and gas properties is depreciated using the unit-of-production method by reference to the ratio of production in the year to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production.

b) Furniture, equipment and fixtures, and land and building

Furniture, equipment and fixtures, and building 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.

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

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

Computer equipment	30%
Furniture	20%

Leasehold improvements are depreciated using the straight-line method over an estimated useful life of five years.

Buildings are depreciated using the straight-line method over an estimated useful life of 40 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and Evaluation Assets

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

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets 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 are transferred to the buyer, which is at the delivery point. Revenue is measured at the fair value of the consideration received or receivable. Revenue is presented net of royalties.

Impairment of Non-financial Assets

Assets that are subject to depreciation are reviewed for impairment at each reporting date to determine whether there is any indication that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment testing, development costs are allocated to CGUs to which the exploration activity relates.

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

Accounts Payable and Accrued Liabilities

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

Provisions / Restoration Provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-lived assets in the period when the liability arises. The net present value of the asset retirement obligation 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 Company's estimates are reviewed at the end of each reporting period for such changes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions / Restoration Provisions (continued)

The liability for the Company's asset retirement obligation is recorded in the period in which it is incurred and discounted to its present value using an appropriate discount rate 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 income and the capitalized cost is depreciated over the useful life of the related asset once put into use.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity.

Common shares issued for non-monetary consideration are recorded at their fair value on the measurement date. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty's performance is complete.

Share-based Payments

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee received the goods or the services.

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

Income Taxes

Any income tax 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 Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings (Loss) per Share

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

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Chief Executive Officer.

Financial Instruments

a) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are recognized at the amount expected to be received less any discount or rebate to reduce the loan and receivables to estimated fair value. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

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

b) Financial liabilities

Accounts payable and accrued liabilities and operating line of credit are classified as other financial liabilities and are initially recognized at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive income over the period to maturity using the effective interest method.

c) Impairment of financial assets

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

Objective evidence of impairment may include the following:
- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

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

d) Comparative figures

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New or Revised IFRSs and IFRSs Not Yet Effective

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

a) IFRS 9 – Financial Instruments: Classification and Measurement

In October 2010, the IASB added the requirements for financial liabilities in the previously issued IFRS 9 *Financial Instruments* ("IFRS 9"). This standard is effective for annual periods beginning on or after January 1, 2015 and replaces the parts of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition and the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This standard is effective for annual periods beginning on or after January 1, 2015. The Company continues to assess the impact of the application of this standard.

b) IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), which replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This standard is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

c) IFRS 11 – Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements* ("IFRS 11"), which replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. This standard is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

d) IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"), which establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013. This standard may result in additional disclosures being included in the Company's consolidated financial statements and the Company continues to assess the impact of the application of this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New or Revised IFRSs and IFRSs Not Yet Effective (continued)

e) IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, foreign exchange risk, interest rate risk, price risk and fair value risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

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

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

Credit Risk

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

Cash and cash equivalents consist of cash deposits that are primarily held with a Canadian chartered bank or its New Zealand subsidiaries. The funds intended to be used in the completion of the Origin Agreement (Note 6) have been segregated and placed on deposit with the The Hong Kong Shanghai Banking Corporation Limited ("HSBC").

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

The carrying value of the Company's cash and cash equivalents and trade receivables represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at December 31, 2012.

Liquidity Risk

At December 31 2012, the Company had $5,983,121 in cash and cash equivalents (December 31, 2011: $16,144,609) and $28,293,845 in working capital (December 31, 2011: $18,030,398). Based on the available working capital, as well as forecasted positive net cash flow from operations, management has estimated that the Company has sufficient capital to meet short-term operating requirements and the Company is considering a number of options to increase its financial capacity (including increasing cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives) in order to meet all required and planned capital expenditures for the next 12 months.

3. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	Less than 1 year	2 – 5 years	Thereafter	Total
Accounts payable and accrued liabilities	10,392,433	-	-	10,392,433
Operating line of credit	10,451,359	-	-	10,451,359
Total	20,843,792	-	-	20,843,792

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	1,228,462	-	-	1,228,462
Total	1,228,462	-	-	1,228,462

Foreign Exchange Risk

The Company operates internationally with offices and operations in Canada, Singapore and New Zealand. All of the Company's petroleum sales are denominated in United States dollars and operational and capital activities related to our properties are transacted primarily in New Zealand dollars and/or United States dollars with some costs also being incurred in Canadian dollars. Foreign exchange risk arises when the future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency***.*** Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are as follows:

December 31, 2012

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

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

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

(Expressed in Canadian Dollars)

3. FINANCIAL RISK MANAGEMENT (continued)

Foreign Exchange Risk (continued)

December 31, 2011

	Foreign currency amount		Functional currency amount
	United States Dollars	**New Zealand Dollars**	**Canadian Dollars**
New Zealand Energy Corp.			
Cash and cash equivalents	689,616	-	771,473

	Foreign currency amount		Functional currency amount
	Canadian Dollars	**New Zealand Dollars**	**United States Dollars**
NZ Holdings Pte. Ltd.			
Cash and cash equivalents	-	55,325	43,391

	Foreign currency amount		Functional currency amount
New Zealand Subsidiaries	**United States Dollars**	**Canadian Dollars**	**New Zealand Dollars**
Cash and cash equivalents	1,374,281	-	1,731,705
Trade receivables	1,526,814	-	1,923,909

A 10% increase or decrease in the Canadian dollar/United States dollar foreign exchange rate would result in an additional foreign exchange gain or loss at December 31, 2012 of approximately $6,512 ($70,134 at December 31, 2011) being recognized in the statement of comprehensive income. A 10% increase or decrease in the New Zealand dollar/United States dollar foreign exchange rate would result in an additional foreign exchange gain or loss at December 31, 2012 of approximately $5,126,750 ($285,697 at December 31, 2011) being recognized in the statement of comprehensive income.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and cash equivalents that bear a variable rate of interest, and the Company entered into an operating line of credit (Note 11) which bears interest at a variable interest rate of LIBOR plus 0.3%. Sensitivity to a 1% change (plus or minus) in interest rate would affect the reported loss by approximately $9,362 ($Nil at December 31, 2011).

Price Risk

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

(Expressed in Canadian Dollars)

3. FINANCIAL RISK MANAGEMENT (continued)

Fair Value

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

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

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

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

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

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

4. CAPITAL RISK MANAGEMENT

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

5. ACCOUNTS AND OTHER RECEIVABLES

	2012	**2011**
Trade receivables	2,320,704	1,211,680
Other receivables	1,776,426	471,983
	4,097,130	**1,683,663**

6. DEPOSIT

	2012	**2011**
Short term:		
Term deposit (a)	34,837,864	
Drilling service deposit-short term (b)	995,368	-
	35,833,232	-
Long term:		
Acquisition deposit	5,190,057	-
Other retainers and deposit	87,158	11,768
	5,277,217	11,768
	41,110,449	**11,768**

(Expressed in Canadian Dollars)

6. DEPOSIT (continued)

a) The Company has entered into an 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 Company has agreed to pay Origin consideration in the amount of $42 million in cash, payable in the US$ equivalent of US$40.6 million applying a fixed US$/C$ exchange rate of 1.0349, and such other adjustments as may be required at closing. A $5 million deposit was paid with the remainder due on closing, which is anticipated to occur during 2013. 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. Following the announcement of the Acquisition, NZEC deposited US$35 million in the Company's name with HSBC in New Zealand as required by the Origin Agreement. This deposit also serves as security for an operating line of credit of US$34.5 million secured with HSBC (Note 11).

b) The Company has set up a US$1 million deposit which is held in escrow by a contractor for providing a drilling rig and drilling services to the Company in the Taranaki Basin (Note 19(b)).

7. INVENTORIES

	2012	2011
Materials and supplies	2,687,423	1,222,738
Oil inventories	289,220	102,911
	2,976,643	**1,325,649**

During the year ended December 31, 2012, $9,192,441 (December 31, 2011: $467,827) of inventory cost was expensed to the statement of comprehensive loss.

8. 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, 2011	349,568
Reclassification	148,225
Additions	124,423
Foreign currency translation adjustment	13,470
Balance, December 31, 2012	635,686
Accumulated amortization	
Balance, December 31, 2011	64,087
Amortization charge	170,520
Foreign currency translation adjustment	3,478
Balance, December 31, 2012	238,085
Net book value	
Balance, December 31, 2011	**285,481**
Balance, December 31, 2012	**397,601**

During 2012, $170,520 (2011: $63,636) of amortization was capitalized to resource properties.

(Expressed in Canadian Dollars)

9. 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	6,962,451	985,610	268,368	8,214,429
Asset retirement obligation recognized	-	-	464,424	464,424
Reclassification	(148,225)	-	-	(148,225)
Transfer from exploration and evaluation assets	-	-	13,756,783	13,756,783
Foreign currency translation adjustment	55,390	(3,728)	269,028	320,690
Balance, December 31, 2012	7,136,716	981,882	20,316,180	28,434,778
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	1,084,419	-	3,117,010	4,201,429
Foreign currency translation adjustment	13,064	-	37,361	50,425
Balance, December 31, 2012	1,114,666	-	3,452,354	4,567,020
Net book value				
Balance, December 31, 2011	**249,917**	**-**	**5,259,594**	**5,509,511**
Balance, December 31, 2012	**6,022,050**	**981,882**	**16,863,826**	**23,867,758**

a) During 2011, the Company 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 year ended December 31, 2012, the Company determined that its Copper Moki-2, Copper Moki-3 and Waitapu-2 wells were economically viable. Accordingly, exploration and evaluation assets of $13,756,783 were transferred to property, plant and equipment. The individual wells commenced commercial production and the relevant oil and gas properties were depreciated from the following dates:

- Copper-Moki-2 on April 1, 2012;
- Copper Moki-3 on July 2, 2012; and
- Waitapu-2 on December 20, 2012.

(Expressed in Canadian Dollars)

10. 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)
Transfer 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	39,615,549	5,444,247	45,059,796
Recoveries	(2,449,231)	-	(2,449,231)
Asset retirement obligation recognized	1,663,474	328,929	1,992,403
Transfer to property, plant and equipment	(13,756,783)	-	(13,756,783)
Foreign currency translation adjustment	311,499	169,343	480,842
Balance, December 31, 2012	**27,862,343**	**9,517,383**	**37,379,726**

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

Preproduction revenue generated during the start-up and testing phase of the wells was treated as a cost recovery of the capitalized well development costs. Total recoveries on the oil produced and sold during the start-up and testing phase during the year ended December 31, 2012 amounted to $2,449,231 (2011: $950,440).

On December 11, 2012, the Company announced that it was awarded a new exploration permit in the annual New Zealand blocks offer. The bid for Block TAR7 ("PEP 54867") was lodged in a 60/40 joint arrangement with a subsidiary of New Zealand Oil & Gas.

11. OPERATING LINE OF CREDIT

Under the terms of the Origin Agreement (Note 6), the Company was required to place the balance of the purchase price (US$35 million) on deposit with a registered bank in New Zealand. On October 17, 2012, the Company placed US$35 million (Note 6) on deposit in the Company's name with HSBC and subsequently secured an operating line of credit against such deposit with HSBC. The operating line of credit is limited to an amount of US$34.5 million and bears interest at LIBOR plus 0.3% with a maturity date of May 16, 2013. The Company is currently seeking an extension of the maturity date to September 30, 2013.

As at December 31, 2012 the company had drawn down US$10,500,000 or $10,451,359 (2011: $Nil). Subsequent to year-end, the Company drew an additional amount of US$15.2 million against the operating line of credit (Note 19(a)). Due to the near-term maturity of the operating line of credit, the face value at the date of draw-down is considered to closely approximate the fair value of the instrument.

(Expressed in Canadian Dollars)

12. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is approximately $3,441,968.

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

Balance, December 31, 2010	-
Liabilities recognized 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 recognized during the year	2,456,827
Abandonment costs incurred during the year	(35,961)
Accretion expense for the year	8,442
Foreign currency translation adjustment	14,618
Balance, December 31, 2012	**2,598,840**

As at December 31, 2012, the current portion of asset retirement obligations is $Nil.

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

	2012	**2011**
Total undiscounted value of payments	$3,441,968	$155,862
Discount rate	2.55% to 3.56%	3.00%
Expected life	2 to 10 years	3 to 5 years

13. SHARE CAPITAL

a) Details of issuances of common shares

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

ii) On March 24, 2012, the Company closed a bought deal financing of 21,160,000 common shares at a price of $3.00 per common share for gross proceeds of $63,480,000. The Company recorded transaction fees of $4,154,795 which include a finder's fee of $3,808,800 to its agent.

b) Escrowed shares

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

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

b) Escrowed shares (continued)

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

c) Share purchase options

The Company has adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, at their discretion, and in accordance with TSX Venture Exchange requirements, grant to its directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issue does not exceed 10% of the number of then outstanding common shares, or 12,176,910 options, based on the total issued and outstanding common shares as at December 31, 2012. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

A continuity table of share purchase options for the year ended December 31, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price $
Outstanding at January 1, 2011	-	-
Granted	5,298,000	$1.00
Exercised	-	-
Forfeited	-	-
Outstanding at December 31, 2011	5,298,000	$1.00
Granted	3,986,000	$1.85
Exercised	-	-
Forfeited	(100,000)	$1.00
Outstanding at December 31, 2012	9,184,000	$1.37

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

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
$1.00 to $1.49	5,721,000	3.46	2,754,750	3.32
$1.50 to $1.99	1,949,000	4.56	-	-
$2.00 to $2.49	1,213,000	4.72	-	-
$2.50 to $3.00	301,000	4.26	75,250	4.26
	9,184,000	3.88	2,830,000	3.34

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

c) Share purchase options (continued)

The following table summarises information about share options outstanding and exercisable at December 31, 2011:

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	**Number of Options**	**Weighted Average Contractual Life (Years)**	**Number of Options**	**Weighted Average Contractual Life (Years)**
$1.00 to $1.49	5,821,000	4.55	-	-
	5,821,000	4.55	-	-

The total expense relating to share purchase options incurred for the year ended December 31, 2012 was $4,758,166 of which $1,594,780 has been expensed in the statement of comprehensive income (loss) and $3,163,386 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	1.23%	1.85%
Expected volatility	118.28%	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.

d) Advisors warrants

The Company granted warrants to advisors in connection with the initial public offering to purchase common shares. No warrants were granted, exercised or cancelled during the year, nor did any expire unexercised.

The following table summarises information about advisor warrants outstanding and exercisable at December 31, 2012:

	Warrants Outstanding		Warrants Exercisable	
Range of Exercise Prices	**Number of Warrants**	**Weighted Average Contractual Life (Years)**	**Number of Warrants**	**Weighted Average Contractual Life (Years)**
$1.00	657,315	0.09	657,315	0.09
	657,315	0.09	657,315	0.09

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%

(Expressed in Canadian Dollars)

14. RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

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

	2012	2011
Salary and management fees	2,245,927	1,253,000
Share-based compensation	2,754,115	2,507,745
	5,000,042	3,760,745

Included in the accounts payable and accrued liabilities within the consolidated balance sheets are amounts due to related parties of $40 (2011: $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.

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Professional fees	1,134,868	537,630
Management fees	1,726,023	868,790
Consulting fees	713,581	196,491
Travel and promotion	919,860	547,980
Administrative expenses	555,781	174,026
Rent	141,803	65,333
Filing and transfer agent fees	170,498	127,756
Insurance	83,475	60,364
General exploration	55,746	5,160
Salary and wages	395,314	-
	5,896,949	**2,583,530**

(Expressed in Canadian Dollars)

16. INCOME TAXES

A reconciliation of the income tax benefit determined by applying the Canadian income tax rates to the consolidated loss for the years ended December 31, 2012 and December 31, 2011 has been prepared as follows:

	2012	**2011**
Loss (income) before income taxes	3,081,173	6,572,934
Statutory tax rate	25%	26.5%
Income tax (recovery) at statutory rates	(770,293)	(1,741,828)
Permanent difference – Stock-based compensation	496,936	719,744
Permanent difference – Stock-based compensation (depleted)	28,647	-
Effect of tax rates in other jurisdictions	125,973	(186,915)
Change in statutory tax rate	-	426,977
Effect of changes in foreign exchange rates	(279,750)	-
Change in unrecognized tax assets	392,830	1,441,237
Other	5,657	(659,215)
Deferred income tax expense	**-**	**-**

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

	2012	**2011**
Deferred income tax assets		
Accounts payables	131,679	-
Employee benefits	40,074	-
Non-capital losses available for future periods	10,811,825	4,004,535
Environmental liabilities	725,329	-
Share issue costs	1,354,458	421,346
	13,063,365	4,425,881
Unrecognized deferred tax assets	(4,046,987)	(1,526,772)
Deferred tax assets	9,016,378	2,899,109
Property, plant and equipment	(93,761)	(1,347,938)
Resources property	(8,922,617)	(1,551,171)
Deferred income tax liabilities	(9,016,378)	(2,899,109)
Net deferred income tax asset	**-**	**-**

The above losses available for future years have been determined by applying a Canadian income tax rate of 25.0% (2011: 26.5%) and a New Zealand tax rate of 28% (2011: 28%). These tax benefits have not been recognized in the consolidated financial statements as the benefits are not, more likely than not, going to be realized.

The Company has operating losses available to reduce future taxable income of $9,407,269 in Canada, which will expire between 2030 and 2032. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and amount to NZ$37,566,159.

(Expressed in Canadian Dollars)

17. COMMITMENTS

As at December 31, 2012, the Company had the following undiscounted contractual obligations:

	Less than 1 year	1–3 years	3–5 years	Total
Accounts payable	10,392,000	-	-	10,392,000
Operating lease obligations [1]	271,000	437,000	444,000	1,152,000
Contract and purchase commitments [2]	12,771,000	-	-	12,771,000
Minimum work program requirements [3]	17,918,000	21,478,000	6,592,000	45,988,000
Origin Agreement [4]	37,000,000	-	-	37,000,000
Operating line of credit	10,452,000	-	-	10,452,000
Environmental obligations [5]	-	350,000	3,092,000	3,442,000
Total	88,804,000	22,265,000	10,128,000	121,197,000

(1) The Company has office leases for its offices in Vancouver, Wellington and New Plymouth.
(2) The Company entered into several management and consulting agreements, some of which relate to services to be rendered in connection with exploration work programs commitments.
(3) The Company has committed to complete certain minimum work program requirements in order to maintain its various resource permits.
(4) The Company entered into the Origin Agreement whereby the Company would acquire Origin's Waihapa Production Station and four Petroleum Licences in exchange for $42 million (US$40.6 million at 1.0349 C$/US$). The Company has paid a $5 million deposit (Note 6) and will pay the balance of the purchase price and such other adjustments as may be required upon completion of the Origin Agreement.
(5) The Company has recognized an undiscounted asset retirement obligation of $3.44 million.

At December 31 2012, the Company had $5,983,121 in cash and cash equivalents (December 31, 2011: $16,144,609) and $28,293,845 in working capital (December 31, 2011: $18,030,398). Based on the available working capital, as well as forecasted positive net cash flow from operations, management has estimated that the Company has sufficient capital to meet short-term operating requirements and the Company is considering a number of options to increase its financial capacity (including increasing cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives) in order to meet all required and planned capital expenditures for the next 12 months.

18. SEGMENTED INFORMATION

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

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

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

(Expressed in Canadian Dollars)

18. SEGMENTED INFORMATION (continued)

The breakdown by geographic area as at December 31, 2011 is as follows:

	Canada	Singapore	New Zealand	Consolidated
Non-current assets	11,768	-	11,847,691	11,859,459
Current assets	11,991,488	73,259	7,228,598	19,293,345
Total assets	12,003,256	73,259	19,076,289	31,152,804
Total liabilities	132,361	-	1,251,014	1,383,375
Revenues	-	-	974,517	974,517

19. SUBSEQUENT EVENTS

a) Subsequent to year-end, the Company drew an additional US$15.2 million against its existing operating line of credit (Note 11).

b) Subsequent to year-end, the Company announced that it is delaying the remaining two wells in its Eltham/Alton program to focus on commercial opportunities arising from the pending acquisition of assets from Origin. As a result, the Company demobilized its drilling contractor (Note 6(b)).