



**Second Quarter 2013  
Condensed Consolidated Interim Financial Statements**

**June 30, 2013**

(Expressed in Canadian Dollars)

New Zealand Energy Corp.

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS**  
(Expressed in Canadian Dollars)  
(Unaudited)

	June 30, 2013	December 31, 2012
<b>Assets</b>		
Current		
Cash and cash equivalents	1,741,431	5,983,121
Accounts and other receivables (Note 4)	1,232,158	4,097,130
Deposit – short term (Note 5(a))	37,469,043	35,833,232
Prepaid expenses	379,434	247,511
Inventories (Note 6)	2,354,792	2,976,643
	<b>43,176,858</b>	<b>49,137,637</b>
Deposit – long term (Note 5)	5,264,314	5,277,217
Proprietary database	383,889	397,601
Property, plant and equipment (Note 7)	26,135,651	23,867,758
Exploration and evaluation assets (Note 8)	52,357,470	37,379,726
	<b>127,318,182</b>	<b>116,059,939</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	2,582,681	10,392,433
Operating line of credit (Note 9)	31,076,435	10,451,359
	<b>33,659,116</b>	<b>20,843,792</b>
Asset retirement obligations (Note 10)	3,180,348	2,598,840
	<b>36,839,464</b>	<b>23,442,632</b>
<b>Shareholders' equity</b>		
Share capital (Note 11)	93,413,473	93,153,117
Foreign currency translation reserve	1,699,218	1,762,786
Contributed surplus	19,982,080	17,693,647
Accumulated deficit	(24,616,053)	(19,992,243)
	<b>90,478,718</b>	<b>92,617,307</b>
	<b>127,318,182</b>	<b>116,059,939</b>
Commitments (Note 14)		
Subsequent events (Note 15)		

These consolidated financial statements are authorized for issuance by the Board of Directors on August 26, 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 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	Contributed Surplus (stock-based payment)	Contributed Surplus (advisors warrants)	Foreign Currency Translation Reserve	Accumulated Deficit	Total Equity
		\$	\$	\$	\$	\$	\$
Balance, December 31, 2012	121,769,105	93,153,117	17,470,184	223,463	1,762,786	(19,992,243)	92,617,307
Stock-based compensation (Note 11(c))	-	-	2,348,789	-	-	-	2,348,789
Advisor warrants exercised (Note 11(d))	200,000	260,356	-	(60,356)	-	-	200,000
Net loss for the period	-	-	-	-	-	(4,623,810)	(4,623,810)
Other comprehensive income for the period	-	-	-	-	(63,568)	-	(63,568)
<b>Balance, June 30, 2013</b>	<b>121,969,105</b>	<b>93,413,473</b>	<b>19,818,973</b>	<b>163,107</b>	<b>1,699,218</b>	<b>(24,616,053)</b>	<b>90,478,718</b>
<b>Balance, December 31, 2011</b>	<b>100,609,105</b>	<b>33,827,912</b>	<b>12,712,018</b>	<b>223,463</b>	<b>(82,895)</b>	<b>(16,911,070)</b>	<b>29,769,428</b>
Common shares, at \$3.00 (Note 11(a))	21,160,000	63,480,000	-	-	-	-	63,480,000
Share issue 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
<b>Balance, June 30, 2012</b>	<b>121,769,105</b>	<b>93,153,117</b>	<b>14,577,045</b>	<b>223,463</b>	<b>736,576</b>	<b>(15,613,594)</b>	<b>93,076,607</b>

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)

	<b>Three Months Ended June 30, 2013</b>	<b>Three Months Ended June 30, 2012</b>	<b>Six Months Ended June 30, 2013</b>	<b>Six Months Ended June 30, 2012</b>
<b>Revenue</b>				
Oil sales	2,216,815	6,206,749	5,277,878	10,294,425
Royalties	(107,115)	(295,756)	(242,920)	(474,749)
	2,109,700	5,910,993	5,034,958	9,819,676
<b>Expenses and other items</b>				
Production costs	1,616,471	1,305,452	3,307,876	2,076,761
Depreciation	999,237	1,516,155	1,866,280	2,438,988
Stock-based compensation (Note 11(c))	200,441	467,875	780,458	1,047,105
General and administrative (Note 13)	1,445,954	1,007,617	3,128,458	2,268,753
Net finance expense (income)	101,826	(137,023)	119,712	(155,334)
Foreign exchange (gain) loss	(637,680)	615,552	(321,342)	645,148
Transaction cost	613,415	200,779	777,325	200,779
	4,339,664	4,976,407	9,658,767	8,522,200
<b>Net (loss) income for the period</b>	<b>(2,229,964)</b>	<b>934,586</b>	<b>(4,623,809)</b>	<b>1,297,476</b>
<b>Other comprehensive income that may subsequently be reclassified to profit or loss</b>				
Exchange difference on translation of foreign currency	(3,770,811)	383,329	(63,568)	819,471
<b>Total comprehensive income for the period</b>	<b>(6,000,775)</b>	<b>1,317,915</b>	<b>(4,687,377)</b>	<b>2,116,947</b>
Basic and diluted (loss) earnings per share	<b>(0.02)</b>	<b>0.01</b>	<b>(0.04)</b>	<b>0.01</b>
Weighted average shares outstanding	121,969,105	121,769,105	121,951,425	112,351,742
Diluted weighted average shares outstanding	121,969,105	122,843,464	121,951,425	113,427,285

*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)

	June 30, 2013	June 30, 2012
	\$	\$
<b>Operating activities</b>		
Net (loss) income for the period	(4,623,810)	1,297,476
Stock-based compensation	780,458	1,047,105
Depreciation and accretion	1,918,130	2,442,280
Foreign exchange (gain) loss	(256,931)	645,148
Change in non-cash working capital items		
Accounts and other receivables	2,915,214	(2,511,101)
Prepaid expenses	(126,174)	(9,103)
Inventories	704,959	(1,242,680)
Due to related parties	-	(37,645)
Accounts payable and accrued liabilities	(1,436,254)	1,827,320
<b>Cash (used in) provided by operating activities</b>	<b>(124,408)</b>	<b>3,458,800</b>
<b>Investing activities</b>		
Expenditures on resource properties	(19,982,477)	(18,998,670)
Purchase of proprietary database	(96,136)	(135,951)
Purchase of property and equipment	(4,271,671)	(2,180,634)
Deposit (Note 5)	263,866	(5,075,000)
<b>Cash used in investing activities</b>	<b>(24,086,418)</b>	<b>(26,390,255)</b>
<b>Financing activities</b>		
Shares issued (net of share issuance cost)	200,000	59,325,205
Operating line of credit	19,503,573	-
<b>Cash provided by financing activities</b>	<b>19,703,573</b>	<b>59,325,205</b>
<b>Net (decrease) increase in cash and cash equivalents during the period</b>	<b>(4,507,253)</b>	<b>36,393,750</b>
Effect of exchange rate changes on cash	265,563	(309,642)
<b>Cash and equivalents, beginning of the period</b>	<b>5,983,121</b>	<b>16,144,609</b>
<b>Cash and equivalents, end of the period</b>	<b>1,741,431</b>	<b>52,228,717</b>
<b>Supplemental cash flow disclosures</b>		
(Decrease) Increase in accounts payable related to exploration and evaluation assets during the period ended June 30	(7,286,685)	2,910,948
Increase in accounts payable related to property and equipment during the period ended June 30	-	-

See accompanying notes to the condensed consolidated interim financial statements.

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**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. ACQUISITION OF INTEREST IN UPSTREAM AND MIDSTREAM ASSETS**

**Original Terms of the Acquisition**

On May 31, 2012, the Company announced that it had entered into an agreement (the "Origin Letter Agreement") with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited (collectively "Origin") to acquire upstream and midstream assets (the "Acquisition"), subject to finalization of a number of definitive agreements and conditions precedent. These assets included the Tariki, Ahuroa, Waihapa and Ngaere petroleum mining licences in the main Taranaki Basin production fairway (the "Petroleum Licences") as well as the Waihapa Production Station and associated gathering and sales infrastructure.

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

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

**Revised Terms of the Acquisition**

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

The Company also announced that negotiations with Origin had resulted in revisions to the terms of the Acquisition, reducing the purchase consideration and simplifying the transaction. Under the terms of the revised agreement, the purchase consideration was reduced to approximately \$33.5 million, with no additional adjustments. NZEC agreed to transfer the Ahuroa petroleum mining licence to Contact upon closing of the Acquisition, resulting in NZEC purchasing three (net) Petroleum Licences – the Tariki, Waihapa and Ngaere Licences (the "TWN Licences") – as well as the Waihapa Production Station and associated gathering and sales infrastructure (the "TWN Assets").

As one of the conditions precedent to the Origin Letter Agreement, NZEC has entered into an agreement with Contact Energy Limited ("Contact"), a subsidiary of Origin, which owns and operates the Ahuroa Gas Storage Facility ("AGS") located in the Contact-owned permit adjacent to the TWN Licences and the Waihapa Production Station. Of the purchase consideration of approximately \$33.5 million, NZ\$4.25 million will be paid to

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

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

**Revised Terms of the Acquisition (continued)**

Contact and the Company will transfer ownership of the Ahuroa Licence (3,857 acres, 15.6 km<sup>2</sup>) to Contact upon closing of the Acquisition, retaining the three TWN Licences. The Company's technical review of the Ahuroa Licence did not identify significant accessible prospectivity. In exchange for transfer of the Ahuroa Licence to Contact, the Company will receive a compressor capable of handling 10 MMcf/d of natural gas. The Company will also act as operator of the AGS, for which Contact will pay NZEC a monthly operating fee of NZ\$200,000.

In addition to the reduced purchase consideration, the Company agreed to pay a net revenue royalty to Origin at an increased rate of 9% ("Origin Royalty") on all hydrocarbons produced in future from the TWN Licences. The Company can reduce the Origin Royalty at any time by up to 4% by paying Origin \$4.25 million per percentage point. The TWN Licences are also subject to a "grandfathered" New Zealand Petroleum & Minerals 10% net revenue royalty. The royalty regime allows for the deduction of specified portions of operating costs when calculating royalties payable.

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

Contact and NZEC have also agreed to undertake a joint study that is expected to lead to the commencement of a six-month gas looping trial in Q4-2013. NZEC intends to loop a minimum of 10 TJ/day through the Waihapa Production Station, shipped from the existing gas network through the Contact pipeline. During the trial, gas will be used to reactivate the existing gas lift system on the TWN Licences to lift oil and gas from reserves in the Tikorangi formation. Any natural gas liquids that are recovered during the trial will be the property of NZEC and can be sold at market prices. NZEC will sell any additional gas produced through this process to Contact at an estimated price of NZ\$4.75/mcf.

**L&M Letter Agreement to Form Joint Arrangement**

On July 30, 2013, the Company announced that it had entered into a binding agreement (the "L&M Letter Agreement") with L&M Energy Limited ("L&M") to form a 50/50 joint arrangement to explore, develop and operate the TWN Licences and the TWN Assets. Once the joint arrangement is completed, the Company and L&M will each own 50% of the TWN Licences and will also hold a 50% interest in the TWN Assets (the "TWN Joint Arrangement") (Note 15(b)).

Under the terms of the L&M Letter Agreement, L&M will contribute \$18.25 million towards the approximately \$33.5 million purchase consideration agreed to under the Origin Sale and Purchase Agreement, in order to obtain a 50% interest in the TWN Joint Arrangement. L&M will also contribute 50% of all future development and operating expenditures.

The Company will become the operator of the TWN Joint Arrangement, and decisions regarding exploration, development and operations of the TWN Joint Arrangement will be made by management committees with equal representation from both the Company and L&M.

The Company will be responsible for funding the \$15.25 million balance of the \$33.5 million purchase consideration agreed to under the Origin Sale and Purchase Agreement. As at June 30, 2012, the Company had already paid to Origin the \$5 million Acquisition Deposit (Note 5(b)), leaving \$10.25 million to be funded. Subsequent to period-end the Company paid an addition \$1 million Acquisition deposit as described below and in Notes 5(b) and 15(c).

The concurrent completion of the Acquisition and the L&M Letter Agreement is subject to the Company placing the remainder of the purchase price into an escrow account (the "Finance Condition Precedent"), Origin and Contact consenting to L&M becoming a party to the definitive agreements, as well as receiving the relevant government approvals.

**Extension of Closing Date for Finance Condition Precedent**

Subsequent to the period-end, the Company announced that Origin had agreed to extend the deadline for meeting the Finance Condition Precedent from August 14, 2013 to September 30, 2013, and to extend the

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

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

**Extension of Closing Date for Finance Condition Precedent (continued)**

deadline for obtaining the requisite government approvals from September 13, 2013 to October 14, 2013.

In exchange, the Company has agreed to increase its Acquisition deposit (Note 5(b)) to \$6 million. The additional \$1 million was remitted to Origin on August 13, 2013, leaving a remainder of \$9.25 million to be funded (Note 15(c)). The Company continues to consider a number of options to increase its financial capacity in order to meet all of its planned development activities, including completion of the Acquisition (Note 14).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

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

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

**a) IFRS 10 – Consolidated Financial Statements**

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

**b) IFRS 11 – Joint Arrangements**

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

**c) IFRS 12 – Disclosure of Interests in Other Entities**

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"), which establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard, however, additional disclosures may be included in the Company's annual consolidated financial statements.

These condensed consolidated interim financial statements were approved for issuance by the Company's Board of Directors on August 26, 2013.



**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**4. ACCOUNTS AND OTHER RECEIVABLES**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	\$	\$
Trade receivables	322,581	2,320,704
Other receivables	909,577	1,776,426
	<b>1,232,158</b>	<b>4,097,130</b>

**5. DEPOSIT**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Short term:		
Term deposit (a)	37,469,043	34,837,864
Drilling service deposit-short term	-	995,368
	37,469,043	35,833,232
Long term:		
Acquisition deposit (b)	5,184,973	5,190,059
Other retainers and deposit	79,341	87,158
	5,264,314	5,277,217
	<b>42,733,357</b>	<b>41,110,449</b>

- a) As required under the original terms of the Origin Letter Agreement, the Company maintained a deposit of US \$35,759,159 (\$ 37,469,043) in the Company's name with HSBC New Zealand (Note 2).

The deposit served as security for an operating line of credit of up to US\$ 34.5 million with HSBC (Note 9). Subsequent to the period-end, the operating line of credit (with a balance of US\$29,660,667 including additional accrued interest) was settled against the term deposit and the Company received the balance of US\$6,099,844 into cash and cash equivalents (Note 15(a)).

- b) At the time of signing the Origin Letter Agreement, the Company paid a deposit of \$5 million to Origin which is to be applied towards the purchase consideration. On July 12, 2013, the deposit became non-refundable should the Company not meet the Financing Condition Precedent by the specified deadline. On August 12, 2013, the Company announced that Origin had agreed to extend the deadline for meeting the Financing Condition Precedent to September 30, 2013, requiring the Company to pay an additional \$1 million non-refundable deposit, which will also be attributable to the purchase consideration (Notes 2 and 15(c)).

**6. INVENTORIES**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	\$	\$
Materials and supplies	2,024,252	2,687,423
Oil inventories (a)	330,540	289,220
	<b>2,354,792</b>	<b>2,976,643</b>

- (a) During the six-month period ended June 30, 2013, \$5,547,811 (June 30, 2012: \$4,515,749) of inventory cost was expensed to the statement of comprehensive loss. Of this amount \$232,606 related to Stock based compensation previously capitalized to oil inventories.

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**7. PROPERTY, PLANT AND EQUIPMENT**

	Furniture, Equipment and Fixture	Land and Building	Oil and Gas Properties	Total
<b>Cost</b>				
<b>Balance, December 31, 2011</b>	267,100	-	5,557,577	5,824,677
Additions	6,962,451	985,610	268,368	8,216,429
Asset retirement obligation recognized	-	-	464,424	464,424
Reclassification	(148,225)	-	-	(148,225)
Transfer from exploration and evaluation assets	-	-	13,756,783	13,756,783
Foreign currency translation adjustment	55,390	(3,728)	269,028	320,690
<b>Balance, December 31, 2012</b>	<b>7,136,716</b>	<b>981,882</b>	<b>20,316,180</b>	<b>28,434,778</b>
Additions	4,349,312	-	-	4,349,312
Asset retirement obligation recognized	-	-	(70,181)	(70,181)
Foreign currency translation adjustment	(137,290)	(962)	(17,573)	(155,825)
<b>Balance, June 30, 2013</b>	<b>11,348,738</b>	<b>980,920</b>	<b>20,228,426</b>	<b>32,558,084</b>
<b>Accumulated depreciation</b>				
<b>Balance, December 31, 2011</b>	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
<b>Balance, December 31, 2012</b>	<b>1,114,666</b>	<b>-</b>	<b>3,452,354</b>	<b>4,567,020</b>
Depreciation and depletion charge	733,450	-	1,183,350	1,916,800
Foreign currency translation adjustment	(24,953)	-	(36,434)	(61,387)
<b>Balance, June 30, 2013</b>	<b>1,823,163</b>	<b>-</b>	<b>4,599,270</b>	<b>6,422,433</b>
<b>Net book value</b>				
<b>Balance, December 31, 2012</b>	<b>6,022,050</b>	<b>981,882</b>	<b>16,863,826</b>	<b>23,867,758</b>
<b>Balance, June 30, 2013</b>	<b>9,525,575</b>	<b>980,920</b>	<b>15,629,156</b>	<b>26,135,651</b>

**8. EXPLORATION AND EVALUATION ASSETS**

	Taranaki Basin, New Zealand	East Coast Basin, New Zealand	Total
Balance, December 31, 2011	2,477,835	3,574,864	6,052,699
Additions	39,615,549	5,444,247	45,059,796
Recoveries	(2,449,231)	-	(2,449,231)
Asset retirement obligation recognized	1,663,474	328,929	1,992,403
Transfer to property, plant and equipment	(13,756,783)	-	(13,756,783)
Foreign currency translation adjustment	311,499	169,343	480,842
<b>Balance, December 31, 2012</b>	<b>27,862,343</b>	<b>9,517,383</b>	<b>37,379,726</b>
Additions	11,424,934	3,439,178	14,864,112
Asset retirement obligation recognized	618,229	610	618,839
Foreign currency translation adjustment	(391,793)	(113,414)	(505,207)
<b>Balance, June 30, 2013</b>	<b>39,513,713</b>	<b>12,843,757</b>	<b>52,357,470</b>

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.

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**9. OPERATING LINE OF CREDIT**

During 2012 the Company secured an operating line of credit against its deposit with HSBC New Zealand (Note 5(a)). The operating line of credit was limited to an amount of US\$34.5 million and bore interest at LIBOR plus 0.3% with an initial maturity date of May 16, 2013, which was later extended to September 30, 2013.

As at June 30, 2013 the company had drawn down US\$29,659,194 or \$31,076,435 (December 31, 2012: \$US 10,500,000 or \$10,451,359). Subsequent to the period-end, the Company settled the outstanding balance of the operating line of credit, including additional accrued interest, of US\$29,660,667 (Note 15(a)).

**10. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is estimated at approximately \$4,115,461.

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

<b>Balance, December 31, 2011</b>	<b>154,914</b>
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
<b>Balance, December 31, 2012</b>	<b>2,598,840</b>
Liabilities recognized during the period	676,074
Change in estimate	(125,507)
Accretion expense for the period	51,850
Foreign currency translation adjustment	(20,909)
<b>Balance, June 30, 2013</b>	<b>3,180,348</b>

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

	<b>2013</b>	<b>2012</b>
Total undiscounted value of payments	4,115,461	\$3,441,968
Discount rate	2.85% to 4.13%	2.55% to 3.56%
Expected life	2 to 13 years	2 to 10 years

**11. 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:

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**11. 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 (released)
February 3, 2014	8,851,200
August 3, 2014	6,713,400
Total	<u>46,394,334</u>

c) Share purchase options

The Company has adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, at their discretion, and in accordance with TSX Venture Exchange requirements, grant to its directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issue does not exceed 10% of the number of then outstanding common shares, or 12,196,910 options, based on the total issued and outstanding common shares as at June 30, 2013. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

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

	Number of Options	Weighted Average Exercise Price \$
Outstanding at December 31, 2011	5,298,000	\$1.00
Granted	3,986,000	\$1.85
Forfeited	(100,000)	\$1.00
Outstanding at December 31, 2012	9,184,000	\$1.37
Granted	797,200	\$1.14
Forfeited	(168,750)	\$1.72
Outstanding at June 30, 2013	<u>9,812,450</u>	<u>\$1.35</u>

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

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
\$1.00 to \$1.49	6,450,700	3.16	4,085,000	2.85
\$1.50 to \$1.99	1,949,000	4.06	487,250	4.06
\$2.00 to \$2.49	1,111,750	4.23	303,250	4.23
\$2.50 to \$3.00	301,000	3.77	150,500	3.77
	<u>9,812,450</u>	<u>3.48</u>	<u>5,026,000</u>	<u>3.08</u>

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**11. SHARE CAPITAL (continued)**

c) Share purchase options (continued)

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

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	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
	<u>9,184,000</u>	<u>3.88</u>	<u>2,830,000</u>	<u>3.34</u>

The total expense relating to share purchase options incurred for the six month period ended June 30, 2013 was \$2,348,789. \$780,458 has been expensed in the statement of comprehensive income (loss) of which \$232,606 relates to production cost (Note 6(a)). As at June 30, 2013, \$60,192 of share based compensation has been capitalized to oil inventories, while \$251,496 and \$1,256,643 has been capitalized to property plant and equipment and exploration and evaluation assets respectively.

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

	2013	2012
Risk-free interest rate	1.37%	1.23%
Expected volatility	116.73%	118.28%
Expected life	5 years	5 years
Expected dividend yield	Nil%	Nil%

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

d) Advisors warrants

The Company granted 657,315 warrants to advisors in connection with the initial public offering to purchase common shares. On January 16, 2013, 200,000 of these warrants were exercised for the price of \$1.00 per share. The Company reallocated \$60,356 from contributed surplus to share capital as a result of the exercise of 200,000 advisor warrants. The remainder of the outstanding warrants expired on February 3, 2013.

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

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2011 and 2012	657,315	\$1.00
Exercised	(200,000)	\$1.00
Expired	(457,315)	\$1.00
Outstanding at June 30, 2013	<u>-</u>	<u>-</u>

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**12. RELATED PARTY TRANSACTIONS**

**Key Management and Personnel Compensation**

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

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	\$	\$	\$	\$
Salary and management fees	739,340	354,000	1,470,591	728,150
Share-based compensation	398,999	627,835	970,887	1,398,488
	<u>1,138,339</u>	<u>981,835</u>	<u>2,441,478</u>	<u>2,126,638</u>

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

**13. GENERAL AND ADMINISTRATIVE EXPENSES**

	Three months end June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	\$	\$	\$	\$
Professional fees	260,098	279,919	470,074	363,576
Management fees	238,713	267,736	549,440	555,162
Consulting fees	174,876	21,629	344,039	558,227
Travel and promotion	116,490	277,972	220,892	437,801
Administrative expenses	56,846	97,891	318,709	145,768
Rent	54,178	20,948	99,149	41,391
Filing and transfer agent fees	51,234	25,031	91,503	133,263
Insurance	57,637	16,491	104,860	33,565
Salary and wages	435,882	-	929,792	-
	<u>1,445,954</u>	<u>1,007,617</u>	<u>3,128,458</u>	<u>2,268,753</u>

**14. COMMITMENTS**

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

	Less than 1 year	1–3 years	3–5 years	Beyond 5 years	Total
Accounts payable	2,583,000	-	-	-	2,583,000
Operating lease obligations <sup>(1)</sup>	104,000	428,000	370,000	-	902,000
Contract and purchase commitments <sup>(2)</sup>	1,602,000	-	-	-	1,602,000
Minimum work program requirements <sup>(3)</sup>	14,145,000	21,474,000	6,590,000	-	42,209,000
TWN Joint Arrangement <sup>(4)</sup>	10,556,000	-	-	-	10,556,000
Operating line of credit <sup>(5)</sup>	31,076,000	-	-	-	31,076,000
Environmental obligations <sup>(6)</sup>	-	1,070,000	366,000	2,679,000	4,115,000
Total	<u>60,066,000</u>	<u>22,972,000</u>	<u>7,326,000</u>	<u>2,679,000</u>	<u>93,043,000</u>

**New Zealand Energy Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**June 30, 2013**  
(Expressed in Canadian Dollars)

**14. COMMITMENTS (continued)**

- (1) The Company has office leases for its offices in Vancouver, Wellington and New Plymouth.
- (2) The Company entered into several management and consulting agreements, some of which relate to services to be rendered in connection with exploration work programs commitments.
- (3) The Company has committed to complete certain minimum work program requirements in order to maintain its various resource permits.
- (4) The Company entered into definitive agreements whereby the Company would acquire a 50% working interest in the TWN Joint Arrangement. Under the terms of the various agreements described in Note 2, the Company is expected to pay \$10.25 million towards its 50% interest in the TWN Joint Arrangement. The Company also expects to contribute its proportionate share of bonds to be provided to NZPAM in the amount of NZ\$250,000 per each of the three TWN Licences.
- (5) Subsequent to the period-end, the operating line of credit (with a balance of US\$29,660,667 including additional accrued interest) was settled against the term deposit and the Company received the balance of US\$6,099,844 into cash and cash equivalents (Notes 5(a) and 9).
- (6) The Company has recognized an undiscounted asset retirement obligation of \$4.12 million.

At June 30 2013, the Company had \$1,741,431 in cash and cash equivalents (December 31, 2012: \$5,983,121) and \$9,517,742 in working capital (December 31, 2012: \$28,293,845). Based on the available working capital, and forecasted cash flows from production, management has estimated that the Company has sufficient capital to meet short-term operating requirements. However, in order to meet all planned capital expenditures for the next 12 months, the Company is considering a number of options to increase its financial capacity. These options include increasing cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives.

**15. SUBSEQUENT EVENTS**

- a) Subsequent to the period-end, the operating line of credit (with a balance of US\$29,660,667 including additional accrued interest) was settled against the term deposit and the Company received the balance of US\$6,099,844 into cash and cash equivalents (Notes 5(a) and 9).
- b) On July 30, 2013, the Company announced that it had entered into the L&M Letter Agreement to form a 50/50 joint arrangement to explore develop and operate the TWN Joint Arrangement. Under the terms of the L&M Letter Agreement, L&M will contribute \$18.25 million towards the Acquisition's purchase consideration, as well as contributing 50% of all future development and operating expenditure (Note 2).
- c) On August 12, 2013, the Company announced that Origin had agreed to extend the deadline for meeting the Finance Condition Precedent to September 30, 2013 and to extend the deadline for obtaining the requisite government approvals to October 14, 2013. In exchange, the Company has agreed to increase its Acquisition Deposit (Note 5(b)) to \$6 million. The additional \$1 million was remitted to Origin on August 13, 2013, leaving a remainder of \$9.25 million to be funded (Note 2).