NEW ZEALAND ENERGY CORP.

First Quarter 2014
Condensed Consolidated Interim Financial Statements

March 31, 2014

(Expressed in Canadian Dollars)
(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of New Zealand Energy Corp. ("the Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for the review of condensed consolidated interim financial statements by an entity's auditor.

NEW ZEALAND ENERGY CORP.
UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(Expressed in Canadian Dollars)

	March 31, 2014	December 31, 2013
Assets	$	$
Current		
Cash and cash equivalents	2,525,108	4,902,888
Accounts and other receivables (Note 3)	4,756,573	5,873,650
Prepaid expenses	392,487	489,684
Inventory (Note 5)	3,444,577	3,121,117
Assets held for sale (Note 6)	833,286	759,858
	11,952,031	**15,147,197**
Restricted cash	359,175	327,525
Deposit (Note 4)	79,341	79,341
Software and proprietary database (Note 7)	734,927	558,590
Property, plant and equipment (Note 8)	54,786,347	49,169,997
Exploration and evaluation assets (Note 9)	56,876,779	51,500,037
	124,788,600	**116,782,687**
Liabilities		
Current		
Accounts payable and accrued liabilities	6,257,393	7,920,605
Asset retirement obligation (Note 10)	395,204	348,440
	6,652,597	**8,269,045**
Asset retirement obligations (Note 10)	7,626,669	7,068,585
	14,279,266	**15,337,630**
Shareholders' equity		
Share capital (Note 11)	107,160,526	107,160,526
Foreign currency translation reserve	18,042,232	7,567,066
Contributed surplus	22,429,132	21,817,299
Accumulated deficit	(37,122,556)	(35,099,834)
	110,509,334	**101,445,057**
	124,788,600	**116,782,687**

Description of business and going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 17)

These unaudited condensed consolidated interim financial statements are authorized for issuance by the Board of Directors on May 27, 2014.

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 unaudited condensed consolidated interim financial statements.

NEW ZEALAND ENERGY CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Contributed Surplus (stock-based payment)	Contributed Surplus (warrants)	Foreign Currency Translation Reserve	Accumulated Deficit	Total Equity
		$	$	$	$	$	$
Balance, December 31, 2013	170,873,459	107,160,526	20,477,624	1,339,675	7,567,066	(35,099,834)	101,445,057
Stock-based compensation (Note 11)	-	-	611,833	-	-	-	611,833
Net loss for the period	-	-	-	-	-	(2,022,722)	(2,022,722)
Other comprehensive income for the period	-	-	-	-	10,475,166	-	10,475,166
Balance, March 31, 2014	**170,873,459**	**107,160,526**	**21,089,457**	**1,339,675**	**18,042,232**	**(37,122,556)**	**110,509,334**
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)	-	-	1,475,669	-	-	-	1,475,669
Advisor warrants exercised (Note 11)	200,000	260,356	-	(60,356)	-	-	200,000
Net loss for the period	-	-	-	-	-	(2,393,846)	(2,393,846)
Other comprehensive income for the period	-	-	-	-	3,707,243	-	3,707,243
Balance, March 31, 2013	**121,969,105**	**93,413,473**	**18,945,853**	**163,107**	**5,470,029**	**(22,386,089)**	**95,606,373**

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

NEW ZEALAND ENERGY CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in Canadian Dollars)

	March 31, 2014	March 31, 2013
	$	$
Revenues		
Oil sales (Note 12)	6,180,122	3,061,064
Processing revenue (Note 12)	362,459	-
Less: royalties	(221,632)	(135,806)
	6,320,949	2,925,258
Expenses and other items		
Production costs	780,115	1,691,405
Purchased oil and condensate	4,079,577	-
Processing costs	294,622	-
Depreciation	829,446	867,042
Stock-based compensation (Note 11(c))	249,620	580,017
General and administrative (Note 13)	1,823,498	1,682,505
Finance expense	69,854	17,887
Foreign exchange loss	216,939	316,338
Transaction cost	-	163,910
	8,343,671	5,319,104
Net loss for the period	**(2,022,722)**	**(2,393,846)**
Exchange difference on translation of foreign currency	10,475,166	3,707,243
Total comprehensive income for the period	**8,452,444**	**1,313,397**
Basic and diluted loss per share	$ (0.01)	$ (0.02)
Weighted average shares outstanding	170,873,459	121,933,549

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

NEW ZEALAND ENERGY CORP.
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	March 31, 2014	March 31, 2013
	$	$
Operating activities		
Net loss for the period	(2,022,722)	(2,393,846)
Stock-based compensation	249,620	580,017
Depreciation and accretion	909,055	890,146
Foreign exchange loss	112,229	537,946
Change in non-cash working capital items		
Accounts and other receivables	1,664,270	1,518,092
Prepaid expenses	129,449	(50,795)
Inventories	94,249	381,600
Accounts payable and accrued liabilities	(1,348,990)	(856,580)
Cash (used in) provided by operating activities	**(212,840)**	**606,580**
Investing activities		
Expenditures on resource properties	(499,336)	(10,738,054)
Purchase of proprietary database	(180,804)	(95,556)
Purchase of property and equipment	(1,594,892)	(1,310,259)
Cash used in investing activities	**(2,275,032)**	**(12,143,869)**
Financing activities		
Shares issued (net of share issuance cost)	-	200,000
Operating line of credit	-	11,150,631
Cash provided by financing activities	**-**	**11,350,631**
Net decrease in cash and cash equivalents during the period	**(2,487,872)**	**(186,658)**
Effect of exchange rate changes on cash	110,092	30,385
Cash and equivalents, beginning of the period	4,902,888	**5,983,121**
Cash and equivalents, end of the period	**2,525,108**	**5,826,848**
Supplemental cash flow disclosures		
Accounts payable related to exploration and evaluation assets	(165,644)	(1,683,990)
Accounts payable related to property, plant and equipment	252,238	749,421

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

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

The Company commenced operations on April 19, 2010 through its now wholly-owned subsidiary, East Coast Energy Ventures Limited. The Company was subsequently incorporated on October 29, 2010 under the name 0894134 B.C. Ltd. pursuant to the *Business Corporation Act* (British Columbia). 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, as well as the operation of the midstream assets in which the Company holds a working interest.

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".

Going Concern

While these unaudited consolidated interim financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions cast significant doubt on the validity of this assumption. For the quarter ended March 31, 2014, the Company reported a net loss of $2,022,722 and a cash outflow from operating activities of $212,840 and, as at that date, the Company had working capital of $5,299,434. The Company also has various ongoing work program commitments (Note 16) that are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

The Company continues to consider a number of options to increase its financial capacity, including cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives (Note 17(c)).

The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flow from operations. The Company has recently undertaken a number of development activities which are underway as of the report date. The success of these development activities, or whether sufficiently profitable operations will be attained from these development activities, cannot be assured.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2013, 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 audited annual consolidated financial statements for the year ended December 31, 2013, other than the following new standards that were adopted by the Company effective January 1, 2014.

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Preparation (continued)

a) IAS 32 – Financial Instruments: Presentation

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The Company concluded that the adoption of this standard does not have a material impact on its financial statements.

b) IAS 36 – Impairment of Assets

The amendments to IAS 36 outline the additional disclosures that will be required with regards to the recoverable amount of impaired assets. The Company concluded that the application of this IAS did not have any material impact on the disclosures for the current or prior years, but may affect the disclosures of future transactions or arrangements.

c) International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 21 - Levies

This interpretation clarifies the accounting treatment for a liability to pay a levy, where a levy is an outflow of economic benefits imposed by governments on entities in accordance with legislation. The Company concluded that the application of this IFRIC did not have any material impact on its financial statements.

3. ACCOUNTS AND OTHER RECEIVABLES

	March 31, 2014	December 31, 2013
	$	$
Trade receivables	1,282,206	3,840,684
GST receivables	332,902	167,359
Other receivables	3,141,465	1,865,607
	4,756,573	**5,873,650**

4. DEPOSITS

	March 31, 2014	December 31, 2013
	$	$
Other retainers and deposits	79,341	79,341
	79,341	79,341

5. INVENTORIES

	March 31, 2014	December 31, 2013
	$	$
Material and supplies	2,377,468	1,920,745
Oil inventories (a)	968,942	938,659
Purchased condensate	98,167	261,713
	3,444,577	**3,121,117**

(a) During the period ended March 31, 2014, $1,700,095 of inventory cost previously capitalized to oil inventories was expensed to the statement of comprehensive loss (March 31, 2013: $nil). This amount comprises $780,115 in production cost, $747,594 in depletion, $30,707 (March 31, 2013: $nil) in stock-based compensation and $141,679 (March 31, 2013: $nil) in salaries and other costs previously capitalized to inventory.

(Expressed in Canadian Dollars)

6. ASSETS HELD FOR SALE

The Company had previously acquired two separate lots of land with buildings that are no longer required by the Company as part of its core business. During the quarter the Company committed to disposing of these assets, with such disposal considered to be highly probable. As such, these properties, at a cost of $720,708 at the time of the reclassification, have been presented as non-current assets held for sale. The estimated fair value less costs to sell the land and buildings as at March 31, 2014 is $833,286 or NZ$870,000 (2013: $759,858 or NZ$870,000).

Subsequent to the period ended March 31, 2014, the Company disposed of both of these properties for net proceeds of approximately NZ$642,000 (Note 17(c)).

7. SOFTWARE AND PROPRIETARY DATABASE

The software and proprietary database consists of 2D and 3D seismic models and geological files of the Taranaki and East Coast basins as well as financial and asset management software.

	Software and proprietary database
Cost	**$**
Balance, December 31, 2012	635,686
Additions	355,760
Foreign currency translation adjustment	53,459
Balance, December 31, 2013	1,044,905
Additions	180,804
Foreign currency translation adjustment	107,790
Balance, March 31, 2014	1,333,499
Accumulated amortization	
Balance, December 31, 2012	238,085
Amortization charge	223,534
Foreign currency translation adjustment	24,696
Balance, December 31, 2013	486,315
Amortization charge	62,891
Foreign currency translation adjustment	49,366
Balance, March 31, 2014	598,572
Net book value	
Balance, December 31, 2013	**558,590**
Balance, March 31, 2014	**734,927**

During the three-month period ended March 31, 2014, $28,576 (2013: $nil) of amortization was capitalized to exploration and evaluation assets.

(Expressed in Canadian Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

Cost	**Furniture and fixture** $	**Plant and equipment** $	**Land and building** $	**Oil and gas properties** $	**Total** $
Balance, December 31, 2012	472,552	-	981,882	26,980,343	28,434,777
Additions	84,536	1,846,033	-	5,457,838	7,388,407
Acquisition	-	3,288,803	1,322,751	11,533,734	16,145,288
Transferred to assets available for sale (Note 6)	-	-	(720,708)	-	(720,708)
Impairment	-	-	(275,484)	-	(275,484)
Asset retirement obligation recognized as part of Acquisition	-	2,356,672	-	1,571,918	3,928,590
Reduction in asset retirement cost due to change in estimate	-	-	-	(131,850)	(131,850)
Foreign currency translation adjustment	23,416	410,042	21,161	1,766,902	2,221,521
Balance, December 31, 2013	**580,504**	**7,901,550**	**1,329,602**	**47,178,885**	**56,990,541**
Additions	(22,015)	160,697	-	1,717,559	1,856,241
Addition (reduction) in asset retirement cost due to change in estimate	-	57,491	-	(114,299)	(56,808)
Foreign currency translation adjustment	31,663	812,327	128,485	4,600,579	5,573,054
Balance, March 31, 2014	**590,152**	**8,932,065**	**1,458,087**	**53,382,724**	**64,363,028**
Accumulated depreciation					
Balance, December 31, 2012	88,560	9,733	-	4,468,726	4,567,019
Depreciation and depletion	128,019	108,723	-	2,461,889	2,698,631
Foreign currency translation adjustment	8,145	7,442	-	539,307	554,894
Balance, December 31, 2013	**224,724**	**125,898**	-	**7,469,922**	**7,820,544**
Depreciation and depletion	34,022	91,857	-	848,795	974,674
Foreign currency translation adjustment	16,528	16,020	-	748,915	781,463
Balance, March 31, 2014	**275,274**	**233,775**	-	**9,067,632**	**9,576,681**
Net book value					
Balance, December 31, 2013	**355,780**	**7,775,652**	**1,329,602**	**39,708,963**	**49,169,997**
Balance, March 31, 2014	**314,878**	**8,698,290**	**1,458,087**	**44,315,092**	**54,786,347**

Comparative figures have been reclassified in order to conform to the presentation of the current period.

(Expressed in Canadian Dollars)

9. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand	East Coast Basin, New Zealand	Total
	$	$	$
Balance, December 31, 2012	27,862,343	9,517,383	37,379,726
Additions	12,701,648	4,449,678	17,151,326
Asset retirement obligaton recognized	478,851	(27,249)	451,602
Impairment	-	(6,708,960)	(6,708,960)
Foreign currency translation adjustment	2,423,599	802,744	3,226,343
Balance, December 31, 2013	**43,466,441**	**8,033,596**	**51,500,037**
Additions	180,330	392,142	572,472
Asset retirement obligation recognized	(145,877)	-	(145,877)
Foreign currency translation adjustment	4,166,918	783,229	4,950,147
Balance, March 31, 2014	**47,667,812**	**9,208,967**	**56,876,779**

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.

In 2013, the Company made the decision to focus its East Coast exploration efforts on the Wairoa, Castlepoint and East Cape permits, and subsequently relinquished the Ranui Permit. As a result, the Company wrote off $6,708,960 of exploration and evaluation assets previously capitalized to the permit as at December 31, 2013.

Subsequent to the period ended March 31, 2014, the Company, in conjunction with its joint arrangement partner, decided to relinquish its interest in the Manaia Permit. As at March 31, 2014, a total cost of $546,154 had been capitalized in exploration and evaluation assets with respect to the Manaia Permit (Note 17(a)).

(Expressed in Canadian Dollars)

10. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim its 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 $18,660,822.

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

	$
Balance, December 31, 2012	**2,598,840**
Liabilities recognized during the year	816,336
Liabilities recognized related to the Acquisition	3,928,590
Change in estimate	(496,584)
Accretion expense for the year	161,160
Foreign currency translation adjustment	408,683
Total	7,417,025
Current portion	(348,440)
Balance, December 31, 2013	7,068,585
Balance, January 1, 2014	7,417,025
Liabilities recognized during the period	-
Change in estimate	(248,491)
Accretion expense for the period	79,609
Foreign currency translation adjustment	773,730
Total	8,021,873
Current portion	(395,204)
Balance, March 31, 2014	**7,626,669**

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

	2014	**2013**
Total undiscounted value of payments	$18,660,822	$17,520,056
Discount rate	3.34% to 4.57%	3.01% to 4.60%
Expected life	0.75 to 25 years	1 to 25 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.

iii) On October 29, 2013, the Company announced that it had completed an oversubscribed non-brokered private placement with total gross proceeds of $16,138,437, and had issued 48,904,354 subscription receipts at a price of $0.33 per subscription receipt. On November 21, 2013, following receipt from the British Columbia Securities Commission for the Company's short form prospectus, the subscription receipts converted into units consisting of one common share and one-half of one non-transferable share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share of the Company at price of $0.45 with an expiry date of October 28, 2014. Shares related to the private placement became free trading on November 21, 2013. The Company paid a total finders' fee of $1,210,947, of which $1,005,130 related to a 7% cash commission to qualified persons and $205,817 related to the issuance of 3,045,849 advisor warrants (equal to 7% of the number of subscriptions receipts issued to qualified persons). Each advisor warrant entitles the holder to acquire one common share of the Company at a price of $0.33 per share with an expiry date of October 28, 2014 (see Note 11(d)).

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

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:

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 (released)
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 17,087,346 options, based on the total issued and outstanding common shares as at March 31, 2014. 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 three-month period ended March 31, 2014 is as follows:

	Number of options	Weighted average exercise price
		$
Outstanding at December 31, 2012	9,184,000	1.37
Granted	1,093,200	0.95
Forfeited	(1,402,500)	1.47
Outstanding at December 31, 2013	8,874,700	1.30
Granted	2,326,000	0.45
Forfeited	(327,500)	0.97
Outstanding at March 31, 2014	**10,873,200**	**1.13**

The following table summarises information about share options outstanding and exercisable at March 31, 2014:

	Options Outstanding		Options Exercisable	
Range of exercise price	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
$0.01 to $0.99	6,983,200	3.50	3,680,600	3.61
$1.00 to $1.49	3,650,000	2.23	3,500,000	2.16
$1.50 to $1.99	240,000	3.28	180,000	3.28
	10,873,200	3.07	7,360,600	2.91

(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, 2013:

	Options Outstanding		Options Exercisable	
Range of exercise price	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
$0.01 to $0.99	296,000	4.84	10,500	4.85
$1.00 to $1.49	5,970,700	2.42	5,298,300	2.31
$1.50 to $1.99	1,229,000	2.93	774,500	2.56
$2.00 to $2.49	1,078,000	3.73	539,000	3.73
$2.50 to $3.00	301,000	3.26	225,750	3.26
	8,874,700	2.76	6,848,050	2.49

The total expense relating to share purchase options incurred for three-month period year ended March 31, 2014 was $611,833 (March 31, 2013: $1,475,669). Of that amount, $249,620 (March 31, 2013: $580,017) has been expensed in the statement of comprehensive loss, of which $30,707 (March 31, 2013: $nil) relates to production cost previously recognized in oil inventory (Note 5(a)). As at March 31, 2014, $17,378 (March 31, 2013: $45,348) of share-based compensation has been capitalized to oil inventories, while $110,049 and $234,786 has been capitalized to property plant and equipment and exploration and evaluation assets, respectively (March 31, 2013: $nil and $850,304, respectively).

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

	2014	**2013**
Risk-free interest rate	1.30% to 1.60%	1.42%
Expected volatility	93.90% to 103.10%	114.20%
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.

During the period ended March 31, 2014, the Company granted 2,326,000 share purchase options with an exercise price of $0.45 to various directors, officers and employees. In addition, the Company also re-priced 5,551,200 share purchase options issued historically to officers, employees and consultants of the Company that had original exercise prices within the range of $1.00 to $3.00. The vesting provisions related to the option grants remain unchanged. The incremental value from the re-pricing of share purchase options is $262,656, which will be recognized over the remaining vesting period(s) of the options. The weighted average risk-free interest rate and expected volatility assumptions used to estimate the fair value of re-priced options are 1.13% and 67.02%, respectively. The amendment to the exercise price for options granted to officers of the Company is subject to shareholder approval. Stock options granted to directors at $1.00 per share were not re-priced.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

d) Warrants

Warrants issued in unit issuance

On October 28, 2013, the Company completed an oversubscribed private placement, issuing 48,904,355 subscription receipts at a price of $0.33 per subscription receipt. On November 21, 2013, following receipt from the British Columbia Securities Commission for the Company's short form prospectus, the subscription receipts converted into units consisting of one common share and one-half of one non-transferable share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share of the Company at price of $0.45 with an expiry date of October 28, 2014. All outstanding warrants are exercisable at December 31, 2013.

A continuity table of share purchase warrants for the year ended March 31, 2014 is as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding at December 31, 2012	-	-
Warrants issued from private placement	24,452,178	0.45
Outstanding at December 31, 2013 and March 31, 2014	**24,452,178**	**0.45**

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

	2014	2013
Risk-free interest rate	n/a	1.09%
Expected volatility	n/a	70.16%
Expected life	n/a	1 year
Expected dividend yield	n/a	Nil%

Advisor 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.

On October 28, 2013, the Company granted 3,045,849 advisor warrants to advisors in connection to a private placement. Each advisor warrant entitles the holder to acquire one common share of the Company at a price of $0.33 per share with an expiry date of October 28, 2014. All advisor warrants were exercisable at March 31, 2014.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

d) Warrants (continued)

Advisor warrants (continued)

A continuity table of advisor warrants for the year ended March 31, 2014 is as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding at December 31, 2012	657,315	1.00
Exercised	(200,000)	1.00
Expired	(457,315)	1.00
Advisor warrants issued	3,045,849	0.33
Outstanding at December 31, 2013 and March 31, 2014	**3,045,849**	**0.33**

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

	2014	2013
Risk-free interest rate	n/a	1.09%
Expected volatility	n/a	70.16%
Expected life	n/a	1 year
Expected dividend yield	n/a	Nil%

12. REVENUES

	March 31, 2014	March 31, 2013
	$	$
Oil sales	2,100,545	3,061,064
Purchased oil (a)	2,588,219	-
Purchased condensates (b)	1,491,358	-
Processing revenue (c)	362,459	-
Royalties	(221,632)	(135,806)
	6,320,949	2,925,258

The Company previously entered into a 50/50 joint arrangement (the “TWN Joint Arrangement”) with L&M Energy Limited (“L&M”) to operate the Tariki, Waihapa and Ngaere petroleum mining licenses (the “TWN Licenses”), as well as the Waihapa Production Station and associated gathering and sales infrastructure (the “TWN Assets”).

a) Since the formation of the TWN Joint Arrangement, the Company had agreed with L&M to acquire 50% of the crude oil produced from the TWN Licenses. The Company subsequently sold the purchased oil to a major oil company. The Company recorded the cost of the purchased oil from L&M at the time of delivery immediately before the Company’s point of delivery to the oil company. This agreement with L&M ceased on May 1, 2014, when L&M entered into a new and separate agreement with the before mentioned oil company, following which L&M sells its share of production directly to the oil company (Note 17(d)). From May 1, 2014 onwards, the Company will no longer assume the risk and rewards of ownership of L&M’s share of oil production, and therefore the Company will not record any revenue (or associated costs) from L&M’s share of oil produced.

b) The Company also had an arrangement with a third party whereby the Company purchases condensate (hydrocarbon) for its operational purposes and subsequently sells the condensate to the same major oil company to which the Company sells its oil. Any unsold condensate is carried as inventory. On March 1, 2014, the Company entered into a new arrangement with the third party, whereby the third party retains the risk and rewards related to ownership of the condensate. Since March 1, 2014, the Company no longer

(Expressed in Canadian Dollars)

12. REVENUES (continued)

assumes the risk and rewards of ownership of the condensate, and therefore the Company does not record any revenue (or associated costs) from condensate provided by the third party.

c) As part of its operations of the TWN Assets, the Company provides a wide range of services to third parties, including oil handling and pipeline throughput services, gas processing, as well as handling and disposal of produced water. The Company also operates the nearby Ahuroa Gas Storage Facility on behalf of Contact Energy, for which the TWN Arrangement receives a monthly operating fee of NZ$200,000.

13. GENERAL AND ADMINISTRATIVE EXPENSES

	March 31, 2014 $	March 31, 2013 $
Professional fees	(18,233)	209,976
Management fees	306,499	310,727
Consulting fees	83,346	169,163
Travel and promotion	107,007	100,246
Administrative expenses	386,211	266,020
Rent	36,926	44,971
Filing and transfer agent fees	15,581	40,269
Insurance	8,774	47,223
Salary and wages	897,387	493,910
	1,823,498	**1,682,505**

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:

	Three months ended March 31, 2014 $	Three months ended March 31, 2013 $
Salary and management fees	610,357	731,251
Share-based compensation	82,201	571,888
	692,558	**1,303,139**

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. Included in the amounts above are $305,100 (2013: $273,000) in management fees paid to J. Proust and Associates Inc., an entity with officers in common. The management fee is inclusive of administrative, finance, accounting, investor relations and management consulting fees.

(Expressed in Canadian Dollars)

15. SEGMENTED DISCLOSURES

The Company conducts its business as a single operating segment focused on 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 March 31, 2014 is as follows:

	Canada $	Singapore $	New Zealand $	Consolidated $
Non-current assets	787,982	-	112,048,587	112,836,569
Current assets	349,163	6,579	11,596,289	11,952,031
Total assets	1,137,145	6,579	123,644,876	124,788,600
Total liabilities	337,046	-	13,902,220	14,279,266
Revenues	-	-	6,320,949	6,320,949

The breakdown by geographic area as at December 31, 2013 is as follows:

	Canada $	Singapore $	New Zealand $	Consolidated $
Non-current assets	798,647	-	100,509,318	101,307,965
Current assets	3,495,685	7,692	11,971,345	15,474,722
Total assets	4,294,332	7,692	112,480,663	116,782,687
Total liabilities	346,701	-	14,990,929	15,337,360

The breakdown by geographic area as at March 31, 2013 is as follows:

	Canada $	Singapore $	New Zealand $	Consolidated $
Revenues	-	-	2,925,258	2,925,258

16. COMMITMENTS

As at March 31, 2014, the Company had the following undiscounted contractual obligations:

	2014 $	2015 to 2016 $	2017 and onwards $	Total $
Accounts payable	6,257,393	-	-	6,257,393
Operating lease obligations (1)	157,844	439,022	147,849	744,715
Contract and purchase commitments (2)	3,307,271	524,935	1,243,584	5,075,790
Environmental obligations (3)	355,219	1,082,981	17,222,622	18,660,822
Minimum work program requirements (4)	18,668,521	57,177,935	10,827,700	86,674,156
Total	**28,746,248**	**59,224,873**	**29,441,755**	**117,412,876**

(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 recognized an undiscounted asset retirement obligation of $18.66 million. See Note 10.

(Expressed in Canadian Dollars)

16. COMMITMENTS (continued)

(4) The Company also has various ongoing minimum work program commitments that are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets. Only $320,000 of the minimum work program requirements that are due to be incurred during 2014 relate to permits associated with the Company's producing oil and gas properties, while the balance of the minimum work program requirements for 2014 ($18,668,521) relates to exploration permits. To the extent that the Company elects not to carry out the minimum work program commitments pertaining to a specific permit, the Company will relinquish its interest in the relevant permit (Note 17(a)).

The minimum work program commitments relate to the following permits:

Permit	Type	2014	2015 to 2016	2017 and onwards	Total
		$	$	$	$
Taranaki Basin					
Eltham Permit	Producing and Exploration	320,000	200,000	4,500,000	5,020,000
Alton Permit	Exploration	2,877,568	2,615,000	-	5,492,568
Manaia Permit (Note 17(a))	Exploration	1,511,000	5,746,800	102,000	7,359,800
		4,708,568	8,561,800	4,602,000	17,872,368
East Coast Basin					
Castlepoint Permit	Exploration	6,146,203	35,438,600	-	41,584,803
Wairoa Permit	Exploration	7,750,000	4,980,560	-	12,730,560
East Cape Permit	Exploration	63,750	8,196,975	6,225,700	14,486,425
		13,959,953	48,616,135	6,225,700	68,801,788
Total		**18,668,521**	**57,177,935**	**10,827,700**	**86,674,156**

17. SUBSEQUENT EVENTS

a) During April 2014, the Company, in conjunction with its joint arrangement partner, decided to relinquish its interest in the Manaia Permit. As at March 31, 2014, a total cost of $546,154 had been capitalized in exploration and evaluation assets with respect to the Manaia Permit.

b) Subsequent to the period ended March 31, 2014, the Company granted 1,350,000 share purchase options with an exercise price of $0.45 to various directors, officers and employees of the Company.

c) Subsequent to the period ended March 31, 2014, the Company reached agreements to dispose of a number of non-core assets (including assets presented as held for sale as at March 31, 2014 (Note 6)) for total net proceeds of approximately NZ$1.47 million.

d) On May 1, 2014, L&M entered into a separate sales agreement with a major oil company under which L&M would sell its share of oil produced from the TWN Licenses directly to the oil company (Note 12(a)). Before that date, L&M had an arrangement with the Company whereby the Company acquired 50% of the crude oil produced from the TWN Licenses, which purchased oil the Company would subsequently sell to the same before mentioned oil company. From May 1, 2014 onwards, the Company will no longer assume the risk and rewards of ownership of L&M's share of oil production, and therefore the Company will not record any revenue (or associated costs) from L&M's share of oil produced.