



**Second Quarter 2014
Condensed Consolidated Interim Financial Statements**

June 30, 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)

	June 30,	December 31,
Assets	2014	2013
Current	\$	\$
Cash and cash equivalents	688,440	4,902,888
Accounts and other receivables (Note 3)	2,496,632	5,873,650
Prepaid expenses	218,220	489,684
Inventory (Note 4)	3,199,870	3,121,117
Assets held for sale (Note 5)	-	759,858
	6,603,162	15,147,197
Restricted cash	351,038	327,525
Deposit	79,341	79,341
Software and proprietary database (Note 6)	593,699	558,590
Property, plant and equipment (Note 7)	53,409,032	49,169,997
Exploration and evaluation assets (Note 8)	46,476,829	51,500,037
	107,513,101	116,782,687
Liabilities		
Current		
Accounts payable and accrued liabilities	2,602,252	7,920,605
Asset retirement obligation (Note 9)	348,396	348,440
	2,950,648	8,269,045
Asset retirement obligations (Note 9)	7,697,362	7,068,585
	10,648,010	15,337,630
Shareholders' equity		
Share capital (Note 10)	107,160,526	107,160,526
Foreign currency translation reserve	14,590,839	7,567,066
Contributed surplus	22,400,936	21,817,299
Accumulated deficit	(47,287,210)	(35,099,834)
	96,865,091	101,445,057
	107,513,101	116,782,687

Description of business and going concern (Note 1)
Commitments (Note 15)
Subsequent event (Note 16)

These unaudited condensed consolidated interim financial statements are authorized for issuance by the Board of Directors on August 29, 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 10)	-	-	583,637	-	-	-	583,637
Net loss for the period	-	-	-	-	-	(12,187,376)	(12,187,376)
Other comprehensive income for the period	-	-	-	-	7,023,773	-	7,023,773
Balance, June 30, 2014	170,873,459	107,160,526	21,061,261	1,339,675	14,590,839	(47,287,210)	96,865,091
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 10)	-	-	2,348,789	-	-	-	2,348,789
Advisor warrants exercised (Note 10)	200,000	260,356	-	(60,356)	-	-	200,000
Net loss for the period	-	-	-	-	-	(4,623,810)	(4,623,810)
Other comprehensive loss for the period	-	-	-	-	(63,568)	-	(63,568)
Balance, June 30, 2013	121,969,105	93,413,473	19,818,973	163,107	1,699,218	(24,616,053)	90,478,718

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)

	Three Months Ended June 30, 2014 \$	Three Months Ended June 30, 2013 \$	Six Months Ended June 30, 2014 \$	Six Months Ended June 30, 2013 \$
Revenues				
Oil sales (Note 11)	2,723,830	2,216,815	8,903,952	5,277,878
Gas sales (Note 11)	42,043	-	42,043	-
Processing revenue (Note 11)	500,108	-	862,567	-
Other revenue (Note 11)	19,522	-	19,522	-
Less: royalties	(194,364)	(107,115)	(415,996)	(242,920)
	3,091,139	2,109,700	9,412,088	5,034,958
Expenses and other items				
Production costs	884,587	1,616,471	1,664,702	3,307,876
Purchased oil and condensate	313,425	-	4,393,002	-
Processing costs	295,337	-	589,959	-
Depreciation	867,327	999,237	1,696,773	1,866,280
Impairment (Note 8)	9,331,014	-	9,331,014	-
Loss on disposal	53,637	-	53,637	-
Stock-based compensation (Note 10(c))	145,592	200,441	395,212	780,458
General and administrative (Note 12)	1,441,283	1,445,954	3,264,781	3,128,458
Finance expense	82,103	101,826	151,957	119,712
Foreign exchange (gain) loss	(158,512)	(637,680)	58,427	(321,342)
Transaction cost	-	613,415	-	777,325
	13,255,793	4,339,664	21,599,464	9,658,767
Net loss for the period	(10,164,654)	(2,229,964)	(12,187,376)	(4,623,809)
Exchange difference on translation of foreign currency	(3,451,393)	(3,770,811)	7,023,773	(63,568)
Total comprehensive loss for the period	(13,616,047)	(6,000,775)	(5,163,603)	(4,687,377)
Basic and diluted loss per share	\$ (0.06)	\$ (0.02)	\$ (0.07)	\$ (0.04)
Weighted average shares outstanding	170,873,459	121,969,105	170,873,459	121,951,425

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)

	June 30, 2014	June 30, 2013
	\$	\$
Operating activities		
Net loss for the period	(12,187,376)	(4,623,810)
Stock-based compensation	395,212	780,458
Depreciation and accretion	1,856,956	1,918,130
Foreign exchange loss (gain)	65,815	(256,931)
Impairment	9,331,014	-
Loss on disposal	53,637	-
Change in non-cash working capital items		
Accounts and other receivables	3,779,199	2,915,214
Prepaid expenses	296,854	(126,174)
Inventories	310,946	704,959
Accounts payable and accrued liabilities	(4,672,670)	(1,436,254)
Cash used in operating activities	(770,413)	(124,408)
Investing activities		
Expenditures on resource properties	(920,098)	(19,982,477)
Proceeds from sale of assets	1,137,553	-
Purchase of proprietary database	(119,816)	(96,136)
Purchase of property and equipment	(3,511,586)	(4,271,671)
Deposit	-	263,866
Cash used in investing activities	(3,413,947)	(24,086,418)
Financing activities		
Shares issued (net of share issuance cost)	-	200,000
Operating line of credit	-	19,503,573
Cash provided by financing activities	-	19,703,573
Net decrease in cash and cash equivalents during the period	(4,184,360)	(4,507,253)
Effect of exchange rate changes on cash	(30,088)	265,563
Cash and equivalents, beginning of the period	4,902,888	5,983,121
Cash and equivalents, end of the period	688,440	1,741,431
Supplemental cash flow disclosures		
Change in accounts payable related to exploration and evaluation assets	216,414	(7,286,685)
Change in accounts payable related to property, plant and equipment	967,689	-

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

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
June 30, 2014
(Expressed in Canadian Dollars)

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 six-month period ended June 30, 2014, the Company reported a net loss of \$12,187,376 and a cash outflow from operating activities of \$770,413 and, as at that date, the Company had working capital of \$3,652,514. The Company also has various ongoing work program commitments (Note 15) that are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

The Company continues to pursue a number of options to increase its financial capacity, including cash flow from oil production, disposal of interests in fixed assets, credit facilities, joint arrangements, commercial arrangements or other financing alternatives.

The Company's ability to continue as a going concern is dependent upon its ability to fund near-term development activities with the expectation of generating positive cash flow from operations. The Company's ability to fund these development activities, 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.

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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(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

	June 30, 2014	December 31, 2013
	\$	\$
Trade receivables	1,308,964	3,840,684
GST receivables	151,667	167,359
Other receivables	1,036,001	1,865,607
	<u>2,496,632</u>	<u>5,873,650</u>

4. INVENTORIES

	June 30, 2014	December 31, 2013
	\$	\$
Material and supplies	2,211,325	1,920,745
Oil inventories (a)	988,545	938,659
Purchased condensate	-	261,713
	<u>3,199,870</u>	<u>3,121,117</u>

(a) During the period ended June 30, 2014, \$3,546,459 of inventory cost previously capitalized to oil inventories was expensed to the statement of comprehensive loss (June 30, 2013: \$5,547,811). This amount comprises \$1,664,702 in production cost, \$1,531,521 in depletion, \$186,230 (June 30, 2013: \$232,206) in stock-based compensation and \$164,006 (June 30, 2013: \$Nil) in salaries and other costs previously capitalized to inventory.

5. ASSETS HELD FOR SALE

During the period ended June 30, 2014, the Company disposed of a number of non-core assets (including assets presented as held for sale as at March 31, 2014) for total net proceeds of \$1,137,553. As a result, the Company incurred a net loss from disposition of \$53,636.

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
June 30, 2014
(Expressed in Canadian Dollars)

6. 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	119,816
Foreign currency translation adjustment	77,812
Balance, June 30, 2014	1,242,533
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	126,960
Foreign currency translation adjustment	35,559
Balance, June 30, 2014	648,834
Net book value	
Balance, December 31, 2013	558,590
Balance, June 30, 2014	593,699

During the six-month period ended June 30, 2014, \$14,451 (2013: \$Nil) of amortization was capitalized to exploration and evaluation assets.

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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7. 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	129,301	(123,917)	-	2,926,673	2,932,057
Transferred to assets available for sale	-	-	-	(419,042)	(419,042)
Addition (reduction) in asset retirement cost due to change in estimate	-	149,185	-	(100,776)	48,409
Foreign currency translation adjustment	23,247	518,179	95,450	3,379,028	4,015,904
Balance, June 30, 2014	733,052	8,444,997	1,425,052	52,964,768	63,567,869
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	68,268	131,765	-	1,615,629	1,815,662
Transferred to assets available for sale	-	-	-	(41,571)	(41,571)
Foreign currency translation adjustment	7,825	14,522	-	541,855	564,202
Balance, June 30, 2014	300,817	272,185	-	9,585,835	10,158,837
Net book value					
Balance, December 31, 2013	355,780	7,775,652	1,329,602	39,708,963	49,169,997
Balance, June 30, 2014	432,235	8,172,812	1,425,052	43,378,933	53,409,032

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

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
June 30, 2014
(Expressed in Canadian Dollars)

8. 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 obligation 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	326,113	427,999	754,112
Asset retirement obligation recognized	(194,225)	-	(194,225)
Impairment	(535,742)	(8,795,272)	(9,331,014)
Foreign currency translation adjustment	3,096,769	651,150	3,747,919
Balance, June 30, 2014	46,159,356	317,473	46,476,829

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 relinquish 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.

In April 2014, the Company, in conjunction with its joint arrangement partner, relinquished its interest in the Manaia Permit. As a result, the Company recorded a write down of \$535,742 that had been previously capitalized in exploration and evaluation assets with respect to the Manaia Permit.

In June 2014, the Company made the decision to relinquish its interests in the Castlepoint and Wairoa permits. As a result, the Company recorded a write down of \$8,795,272 that had been previously capitalized in exploration and evaluation assets within the respective permits.

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
June 30, 2014
(Expressed in Canadian Dollars)

9. 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 \$17,958,844.

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	(145,816)
Accretion expense for the period	160,183
Foreign currency translation adjustment	614,366
Total	8,045,758
Current portion	(348,396)
Balance, June 30, 2014	7,697,362

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

	2014	2013
Total undiscounted value of payments	\$17,958,844	\$17,520,056
Discount rate	3.34% to 4.57%	3.01% to 4.60%
Expected life	0.50 to 25 years	1 to 25 years

10. 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 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 10(d)).

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian Dollars)

10. 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. All of the escrowed shares have been 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 (released)
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 17,087,346 options, based on the total issued and outstanding common shares as at June 30, 2014. Such options can be exercised 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 six-month period ended June 30, 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	3,676,000	0.45
Forfeited	(709,250)	0.73
Outstanding at June 30, 2014	<u>11,841,450</u>	<u>1.13</u>

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
June 30, 2014
(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

c) Share purchase options (continued)

The following table summarises information about share options outstanding and exercisable at June 30, 2014:

Range of exercise price	Options Outstanding		Options Exercisable	
	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
\$0.01 to \$0.99	9,141,450	3.37	5,006,850	2.45
\$1.00 to \$1.49	2,700,000	1.83	2,550,000	1.91
	11,841,450	3.02	7,556,850	2.27

The following table summarises information about share options outstanding and exercisable at December 31, 2013:

Range of exercise price	Options Outstanding		Options Exercisable	
	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 the six-month period ended June 30, 2014 was \$583,637 (June 30, 2013: \$2,348,789). Of that amount, \$395,212 (June 30, 2013: \$780,458) has been expensed in the statement of comprehensive loss. As at June 30, 2014, \$123,848 (June 30, 2013: \$60,192) of share-based compensation has been capitalized to oil inventories, while \$33,045 and \$31,532 has been capitalized to property plant and equipment and exploration and evaluation assets, respectively (June 30, 2013: \$251,496 and \$1,256,643 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 June 30, 2014, the Company granted 3,676,000 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.

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10. SHARE CAPITAL (continued)

c) Share purchase options (continued)

The incremental value from the re-pricing of share purchase options is \$283,277, 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.

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 June 30, 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 June 30, 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 June 30, 2014.

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10. SHARE CAPITAL (continued)

d) Warrants (continued)

Advisor warrants (continued)

A continuity table of advisor warrants for the year ended June 30, 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 June 30, 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%

11. REVENUES

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
	\$	\$	\$	\$
Oil sales	2,410,405	2,216,815	4,510,950	5,277,878
Gas sales	42,043	-	42,043	-
Purchased oil (a)	313,425	-	2,901,644	-
Purchased condensates (b)	-	-	1,491,358	-
Processing revenue (c)	500,108	-	862,567	-
Other revenue	19,522	-	19,522	-
Royalties	(194,364)	(107,115)	(415,996)	(242,920)
	3,091,139	2,109,700	9,412,088	5,034,958

The Company previously entered into a 50/50 joint arrangement (the "TWN JA") 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 JA, 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. From May 1, 2014 onwards, the Company no longer assumes the risk and rewards of ownership of L&M's share of oil production, and therefore the Company no longer records any revenue (or associated costs) from L&M's share of oil produced.

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11. REVENUES (continued)

- b) The Company also had an arrangement with a third party whereby the Company purchased condensate (hydrocarbon) for its operational purposes and subsequently sold the condensate to the same major oil company to which the Company sells its oil. 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 assumes the risk and rewards of ownership of the condensate, and therefore the Company no longer records 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.

12. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30, 2014 \$	Three months ended June 30, 2013 \$	Six months ended June 30, 2014 \$	Six months ended June 30, 2013 \$
Professional fees	85,041	260,098	66,808	470,074
Management fees	279,600	238,713	586,099	549,440
Consulting fees	92,825	174,876	176,171	344,039
Travel and promotion	37,765	116,490	144,772	220,892
Administrative expenses	7,954	56,846	394,165	318,709
Rent	35,142	54,178	72,068	99,149
Filing and transfer agent fees	16,453	51,234	32,034	91,503
Insurance	86,694	57,637	95,468	104,860
Salary and wages	799,809	435,882	1,697,196	929,792
	1,441,283	1,445,954	3,264,781	3,128,458

13. 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, 2014 \$	Three months ended June 30, 2013 \$	Six months ended June 30, 2014 \$	Six months ended June 30, 2013 \$
Salary and management fees	572,290	739,340	1,097,851	1,470,591
Share-based compensation	104,634	398,999	186,835	970,887
	676,924	1,138,339	1,284,686	2,441,478

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 \$584,700 (2013: \$546,000) 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, legal, investor relations and management consulting services provided by various employees of J. Proust and Associates.

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13. RELATED PARTY TRANSACTIONS (continued)

Subsequent to the period-end, the Compensation Committee of the Board of Directors reached an agreement with the CEO to defer 33% of the CEO's monthly cash compensation until such time as the Company's financial capacity has suitably improved.

14. 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 June 30, 2014 is as follows:

	Canada	Singapore	New Zealand	Consolidated
	\$	\$	\$	\$
Non-current assets	777,318	-	100,132,621	100,909,939
Current assets	238,364	6,291	6,358,507	6,603,162
Total assets	1,015,682	6,291	106,491,128	107,513,101
Total liabilities	690,717	-	9,957,293	10,648,010

The breakdown by geographic area as at June 30, 2014 is as follows:

	Canada	Singapore	New Zealand	Consolidated
	\$	\$	\$	\$
Revenues	-	-	9,412,088	9,412,088

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 June 30, 2013 is as follows:

	Canada	Singapore	New Zealand	Consolidated
	\$	\$	\$	\$
Revenues	-	-	5,034,958	5,034,958

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15. COMMITMENTS

As at June 30, 2014, the Company had the following undiscounted contractual obligations:

	2014	2015 to 2016	2017 and onwards	Total
	\$	\$	\$	\$
Accounts payable	2,602,252	-	-	2,602,252
Operating lease obligations ⁽¹⁾	105,230	439,022	147,849	692,101
Contract and purchase commitments ⁽²⁾	332,446	524,935	1,243,584	2,100,965
Environmental obligations ⁽³⁾	354,643	1,085,428	16,518,773	17,958,844
Minimum work program requirements ⁽⁴⁾	3,261,318	11,011,975	10,584,650	24,857,943
Total	6,655,889	13,061,360	28,494,856	48,212,105

⁽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 \$17.96 million. See Note 9.

⁽⁴⁾ The Company has various ongoing minimum work program commitments that are associated with the Company's interest in exploration and evaluation assets. As at June 30, 2014, all of the minimum work program requirements for 2014 (\$3,261,318) relate to the Company's exploration permits and none to the producing oil and gas properties (note 16). Should the Company elect not to carry out the minimum work program commitments pertaining to a specific permit, the Company will relinquish its interest in the relevant permit.

The minimum work program commitments relate to the following permits:

Permit	Type	2014	2015 to 2016	2017 and onwards	Total
		\$	\$	\$	\$
Taranaki Basin					
Eltham Permit	Exploration	320,000	200,000	4,500,000	5,020,000
Alton Permit	Exploration	2,877,568	2,615,000	-	5,492,568
		3,197,568	2,815,000	4,500,000	10,512,568
East Coast Basin					
East Cape Permit	Exploration	63,750	8,196,975	6,084,650	14,345,375
		63,750	8,196,975	6,084,650	14,345,375
Total		3,261,318	11,011,975	10,584,650	24,857,943

16. SUBSEQUENT EVENT

Subsequent to the six-month period ended June 30, 2014, the Company received a 943.7 acre (3.819 km²) Petroleum Mining Permit (the "Copper Moki Permit") in the Taranaki Basin. The Copper Moki Permit (PMP 55491) was carved out of NZEC's 100%-owned Eltham Exploration Permit (PEP 51150) to encompass NZEC's Copper Moki and Waitapu oil discoveries. As a condition of the Copper Moki Permit, the Company has agreed to build gas pipeline of approximately 1.3 km within 18 months, connecting the Waitapu site to existing pipeline infrastructure.