NEW ZEALAND ENERGY CORP.

Third Quarter 2014
Condensed Consolidated Interim Financial Statements

September 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)

Assets	**September 30, 2014**	**December 31, 2013**
Current	**$**	**$**
Cash and cash equivalents	787,114	4,902,888
Accounts and other receivables (Note 3)	1,527,176	5,873,650
Deferred financing cost	74,028	-
Prepaid expenses	220,610	489,684
Inventory (Note 4)	3,073,915	3,121,117
Assets held for sale (Note 5)	-	759,858
	5,682,843	**15,147,197**
Restricted cash	325,050	327,525
Deposit	79,341	79,341
Software and proprietary database (Note 6)	484,404	558,590
Property, plant and equipment (Note 7)	48,815,452	49,169,997
Exploration and evaluation assets (Note 8)	43,072,192	51,500,037
	98,459,282	**116,782,687**
Liabilities		
Current		
Accounts payable and accrued liabilities	1,893,856	7,920,605
Asset retirement obligation (Note 9)	352,471	348,440
Working capital facility (Note 10)	70,499	-
	2,316,826	**8,269,045**
Asset retirement obligations (Note 9)	7,793,085	7,068,585
	10,109,911	**15,337,630**
Shareholders' equity		
Share capital (Note 11)	107,160,526	107,160,526
Foreign currency translation reserve	7,728,725	7,567,066
Contributed surplus	22,425,975	21,817,299
Accumulated deficit	(48,965,855)	(35,099,834)
	88,349,371	**101,445,057**
	98,459,282	**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 November 26, 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)	-	-	608,676	-	-	-	608,676
Net loss for the period	-	-	-	-	-	(13,866,021)	(13,866,021)
Other comprehensive income for the period	-	-	-	-	161,659	-	161,659
Balance, September 30, 2014	**170,873,459**	**107,160,526**	**21,086,300**	**1,339,675**	**7,728,725**	**(48,965,855)**	**88,349,371**
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)	-	-	3,086,842	-	-	-	3,086,842
Advisor warrants exercised (Note 11)	200,000	260,356	-	(60,356)	-	-	200,000
Net loss for the period	-	-	-	-	-	(7,300,704)	(7,300,704)
Other comprehensive loss for the period	-	-	-	-	3,961,115	-	3,961,115
Balance, September 30, 2013	**121,969,105**	**93,413,473**	**20,557,026**	**163,107**	**5,723,901**	**(27,292,947)**	**92,564,560**

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 September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Revenues				
Oil sales (Note 12)	1,787,395	1,594,302	10,675,420	6,872,180
Gas sales (Note 12)	43,839	-	85,882	-
Processing revenue (Note 12)	420,860	-	1,283,427	-
Other revenue (Note 12)	8,782	-	28,304	-
Less: royalties	(156,315)	(75,292)	(572,311)	(318,212)
	2,104,561	1,519,010	11,500,722	6,553,968
Expenses and other items				
Production costs	459,102	656,264	2,123,804	3,964,141
Purchased oil and condensate	-	-	4,377,075	-
Processing costs	101,265	-	691,224	-
Depreciation	1,088,238	537,263	2,785,011	2,403,543
Impairment (Notes 7 and 8)	22,984	275,484	9,353,998	275,484
Loss on disposal	143,081	-	196,718	-
Stock-based compensation (Note 11(c))	109,014	531,554	504,226	1,312,011
General and administrative (Note 13)	1,707,520	1,132,267	4,972,301	4,340,863
Finance expense (net)	72,318	27,220	224,275	66,794
Foreign exchange loss (gain)	79,684	174,440	138,111	(146,902)
Transaction cost	-	861,413	-	1,638,738
	3,783,206	4,195,905	25,366,743	13,854,672
Net loss for the period	**(1,678,645)**	**(2,676,895)**	**(13,866,021)**	**(7,300,704)**
Exchange difference on translation of foreign currency	(6,862,114)	4,024,683	161,659	3,961,115
Total comprehensive loss for the period	**(8,540,759)**	**1,347,788**	**(13,704,362)**	**(3,339,589)**
Basic and diluted loss per share	$ (0.01)	$ (0.02)	$ (0.08)	$ (0.06)
Weighted average shares outstanding	170,873,459	121,969,105	170,873,459	121,957,383

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)

	September 30, 2014	September 30, 2013
Operating activities	**$**	**$**
Net loss for the period	(13,866,021)	(7,300,704)
Stock-based compensation	504,226	1,312,011
Depreciation and accretion	3,018,772	2,486,306
Foreign exchange loss	15,279	344,051
Impairment	9,353,998	275,484
Loss on disposal	196,718	-
Change in non-cash working capital items		
Accounts and other receivables	4,346,474	2,740,051
Prepaid expenses	277,496	(61,600)
Inventories	(93,288)	986,163
Accounts payable and accrued liabilities	(4,899,746)	(1,886,241)
Cash used in operating activities	**(1,146,092)**	**(1,104,479)**
Investing activities		
Expenditures on resource properties	(757,808)	(21,362,049)
Restricted cash deposited	-	(9,432,780)
Term Deposit	-	37,551,728
Proceeds from sale of assets	1,337,560	-
Purchase of proprietary database	(148,133)	(137,759)
Purchase of property and equipment	(3,476,359)	(4,860,420)
Deposit	-	(1,000,000)
Cash used in investing activities	**(3,044,740)**	**758,720**
Financing activities		
Deferred financing cost		-
Shares issued (net of share issuance cost)	-	200,000
Shares subscription received	-	7,881,990
Loan payable	30,650	-
Operating line of credit	-	(11,643,093)
Cash provided by financing activities	**30,650**	**(3,561,103)**
Net decrease in cash and cash equivalents during the period	**(4,160,182)**	**(3,906,862)**
Effect of exchange rate changes on cash	44,408	(72,338)
Cash and equivalents, beginning of the period	4,902,888	**5,983,121**
Cash and equivalents, end of the period	**787,114**	**2,003,921**
Supplemental cash flow disclosures		
Change in accounts payable related to exploration and evaluation assets	225,609	(7,035,539)
Change in accounts payable related to property, plant and equipment	935,572	-

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 nine-month period ended September 30, 2014, the Company reported a net loss of $13,866,021 and a cash outflow from operating activities of $1,146,092 and, as at that date, the Company had working capital of $3,366,017. 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 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 recently entered into a working capital facility as described in note 10, in order to fund its share of expenditures and equipment required to advance the TWN Licenses and TWN Assets, and for working capital purposes as agreed to by New Dawn. The facility has a maturity date of March 31, 2015 or as extended by agreement.

The Company's ability to continue as a going concern is dependent upon its ability to expand the financial capacity of the Company in order to:

(i) repay its obligations (including the working capital facility from New Dawn) as they become due; and also
(ii) fund near-term development activities with the expectation of generating positive cash flow from operations.

The Company's ability to expand its financial capacity, the success of the intended development activities, or whether sufficiently profitable operations will be attained from the intended 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.

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.

Standards issued but not yet effective:

a) IFRS 9 - Financial Instruments

This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, derecognition of financial assets and financial liabilities. The Company will assess this pronouncement for any future impact it may have on its financial statements.

(Expressed in Canadian Dollars)

3. ACCOUNTS AND OTHER RECEIVABLES

	September 30, 2014	December 31, 2013
	$	$
Trade receivables	771,035	3,840,684
GST receivables	77,318	167,359
Other receivables	678,823	1,865,607
	1,527,176	**5,873,650**

4. INVENTORIES

	September 30, 2014	December 31, 2013
	$	$
Material and supplies	2,075,736	1,920,745
Oil inventories (a)	998,179	938,659
Purchased condensate	-	261,713
	3,073,915	**3,121,117**

(a) During the nine-month period ended September 30, 2014, $4,617,766 of inventory cost previously capitalized to oil inventories was expensed to the statement of comprehensive loss (September 30, 2013: $6,867,267). This amount comprises $2,123,803 in production cost (2013: $3,964,141), $2,311,188 (2013: $2,372,828) in depletion and $69,026 in depreciation, $2,287 (September 30, 2013: $295,018) in stock-based compensation and $180,488 (September 30, 2013: $235,280) in salaries and other costs previously capitalized to inventory.

5. ASSETS HELD FOR SALE

During the period ended September 30, 2014, the Company disposed of a number of non-core assets (including assets classified 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 assets classified as held for sale of $53,636.

(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	148,133
Foreign currency translation adjustment	(15,738)
Balance, September 30, 2014	1,177,300
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	224,442
Foreign currency translation adjustment	(17,861)
Balance, September 30, 2014	692,896
Net book value	
Balance, December 31, 2013	**558,590**
Balance, September 30, 2014	**484,404**

During the nine-month period ended September 30, 2014, $20,240 (2013: $55,013) and $25,205 (2013: $10,880) of amortization was capitalized to exploration and evaluation assets and property, plant and equipment respectively.

(Expressed in Canadian Dollars)

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 (dispositions)	124,953	(512,777)	-	3,094,396	2,706,572
Dispositions	-		-	-	-
Transferred to assets available for sale	-	-	-	(419,042)	(419,042)
Impairment	(22,984)	-	-	-	(22,984)
Addition in asset retirement cost due to change in estimate	-	296,626	-	158,589	455,215
Foreign currency translation adjustment	(11,050)	(10,880)	(10,047)	(538,294)	(570,271)
Balance, September 30, 2014	**671,423**	**7,674,519**	**1,319,555**	**49,474,534**	**59,140,031**
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	92,296	210,229	-	2,473,577	2,776,102
Transferred to assets available for sale	-	-	-	(41,571)	(41,571)
Foreign currency translation adjustment	(5,076)	(14,003)	-	(211,417)	(230,496)
Balance, September 30, 2014	**311,944**	**322,124**	-	**9,690,511**	**10,324,579**
Net book value					
Balance, December 31, 2013	**355,780**	**7,775,652**	**1,329,602**	**39,708,963**	**49,169,997**
Balance, September 30, 2014	**359,479**	**7,352,395**	**1,319,555**	**39,784,023**	**48,815,452**

Comparative figures have been reclassified in order to conform to the presentation of the current period. During the nine-month period ended September 30, 2014, $7,468 (2013: $92,736) and $18,369 (2013: $18,341) of depreciation was capitalized to exploration and evaluation assets and property, plant and equipment respectively.

(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 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	113,417	451,531	564,948
Asset retirement obligation recognized	4,106	-	4,106
Impairment	(535,742)	(8,795,272)	(9,331,014)
Foreign currency translation adjustment	(293,177)	627,292	334,115
Balance, September 30, 2014	**42,755,045**	**317,147**	**43,072,192**

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.

(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 $17,316,857.

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	459,321
Accretion expense for the period	233,762
Foreign currency translation adjustment	35,448
Total	8,145,556
Current portion	(352,471)
Balance, September 30, 2014	**7,793,085**

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

	2014	**2013**
Total undiscounted value of payments	$17,316,857	$17,520,056
Discount rate	3.56% to 4.19%	3.01% to 4.60%
Expected life	0.25 to 25 years	1 to 25 years

10. WORKING CAPITAL FACILITY

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").

(Expressed in Canadian Dollars)

10. WORKING CAPITAL FACILITY (continued)

On September 24, 2014, the Company entered into a working capital facility (the "Facility") with New Dawn Energy Limited ("New Dawn") for up to NZ$5 million. New Dawn is the parent company of L&M. The Facility, to the extent drawn down, will bear interest at 12% per annum with a maturity date of March 31, 2015, or as extended by agreement. Interest is payable monthly and may be capitalized with New Dawn's consent, while the Company may prepay all or part of the Facility at any point without penalty. The Company's obligations under the Facility are secured against the Company's 50% interest in the TWN Limited Partnership, and its 50% interest in NZEC Ngaere Limited, but security does not extend to any of the Company's oil and gas or exploration properties. The Company is allowed to draw down on the Facility in order to fund its share of expenditures and equipment required to advance the TWN Licenses and TWN Assets, and for working capital purposes as agreed to by New Dawn.

For the period ended September 30, 2014, the following transactions occurred:

	$
Establishment fee	43,340
Cash advances under the Facility (Note 17 (e))	30,650
Transaction cost recognized	(4,135)
Interest and accretion (Note 17 (e))	644
Balance at September 30, 2014	70,499

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 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. On October 1, 2014, the Company received approval to extend the expiry date of 24,452,178 private placement warrants from October 28, 2014 to October 28, 2015 (see Note 17(a)). 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)).

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
February 3, 2012	300,000
July 19, 2012	5,853,934
August 3, 2012	6,773,400
February 3, 2013	8,851,200
August 3, 2013	8,851,200
February 3, 2014	8,851,200
August 3, 2014	6,713,400
Total	46,394,334

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

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 September 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 nine-month period ended September 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	3,718,000	0.45
Expired	(3,035,500)	0.70
Forfeited	(431,750)	0.45
Outstanding at September 30, 2014	**9,125,450**	**0.55**

The following table summarises information about share options outstanding and exercisable at September 30, 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	7,425,450	3.29	4,112,900	2.43
$1.00 to $1.49	1,700,000	1.41	1,550,000	1.53
	9,125,450	2.94	5,662,900	2.18

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

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

c) Share purchase options (continued)

	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 the nine-month period ended September 30, 2014 was $608,676 (September 30, 2013: $3,086,842). Of that amount, $504,226 (September 30, 2013: $1,312,011) has been expensed in the statement of comprehensive loss. As at September 30, 2014, $2,287 (September 30, 2013: $62,937) of share-based compensation has been capitalized to oil inventories, while $44,879 and $57,284 has been capitalized to property plant and equipment and exploration and evaluation assets, respectively (September 30, 2013: $279,646 and $1,432,247 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 1.96%	1.42%
Expected volatility	70.19% 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 nine-month period ended September 30, 2014, the Company granted 3,718,000 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 $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.

(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. On October 1, 2014, the Company received approval to extend the expiry date of 24,452,178 private placement warrants from October 28, 2014 to October 28, 2015. These warrants still maintain an exercise price of $0.45 which entitles the holder to acquire one common share of the Company (see Note 17(a)).

A continuity table of share purchase warrants for the period ended September 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 September 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 (See Note 17c).

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

d) Warrants (continued)

Advisor warrants (continued)

A continuity table of advisor warrants for the period ended September 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 September 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%

12. REVENUES

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	$	$	$	$
Oil sales	1,787,395	3,892,223	6,298,345	6,872,180
Purchased oil (a)	-	-	2,885,717	-
Purchased condensates (b)	-	-	1,491,358	-
Gas sales	43,839	-	85,882	-
Processing revenue (c)	420,860	-	1,283,427	-
Other revenue	8,782	-	28,304	-
Royalties	(156,315)	(183,969)	(572,311)	(318,212)
	2,104,561	3,708,254	11,500,722	6,553,968

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.

(Expressed in Canadian Dollars)

12. 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.

13. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Professional fees	12,784	193,921	79,592	663,995
Management fees	259,600	274,819	845,699	824,259
Consulting fees	31,894	128,172	208,065	472,211
Travel and promotion	11,212	159,401	155,984	383,049
Administrative expenses	109,213	139,821	503,378	535,911
Rent	41,314	58,358	113,382	157,507
Filing and transfer agent fees	11,203	22,707	43,237	114,210
Insurance	180,770	28,961	276,238	133,821
Salary and wages	1,049,530	126,107	2,746,726	1,055,900
	1,707,520	**1,132,267**	**4,972,301**	**4,340,863**

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 September 30, 2014 $	Three months ended September 30, 2013 $	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Salary and management fees	508,569	763,362	1,847,148	2,233,953
Share-based compensation	68,869	289,449	258,785	1,241,970
	577,438	**1,052,811**	**2,105,933**	**3,475,923**

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 $927,500 (2013: $819,000) 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.

(Expressed in Canadian Dollars)

14. RELATED PARTY TRANSACTIONS (continued)

During the quarter ended September 30, 2014, 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.

Subsequent to the quarter-end, the Board of Directors resolved to terminate the management agreement between the Company and J. Proust and Associates effective December 31, 2014 (Note 17(f)).

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 September 30, 2014 is as follows:

	Canada $	Singapore $	New Zealand $	Consolidated $
Non-current assets	766,653	-	92,009,786	92,776,439
Current assets	248,912	6,303	5,427,628	5,682,843
Total assets	1,015,565	6,303	97,437,414	98,459,282
Total liabilities	293,818	-	9,816,093	10,109,911

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

	Canada $	Singapore $	New Zealand $	Consolidated $
Revenues	-	-	11,500,722	11,500,722

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

	Canada $	Singapore $	New Zealand $	Consolidated $
Non-current assets	798,647	-	100,836,843	101,635,490
Current assets	3,495,685	7,692	11,643,820	15,147,197
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 September 30, 2013 is as follows:

	Canada $	Singapore $	New Zealand $	Consolidated $
Revenues	-	-	6,553,968	6,553,968

(Expressed in Canadian Dollars)

16. COMMITMENTS

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

	2014	2015 to 2016	2017 and onwards	Total
	$	$	$	$
Accounts payable	1,893,856	-	-	1,893,856
Working Capital Facility	74,634	-	-	74,634
Operating lease obligations (1)	52,615	439,022	147,849	639,486
Contract and purchase commitments (2)	751,666	475,061	1,125,432	2,352,159
Environmental obligations (3)	355,608	1,089,836	15,871,413	17,316,857
Minimum work program requirements (4)	2,718,636	14,831,250	14,450,000	31,999,886
Total	**5,847,015**	**16,835,169**	**31,594,694**	**54,276,878**

(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 $17.32 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 September 30, 2014, all of the minimum work program requirements for 2014 ($2,718,363) relate to the Company's exploration permits and none to the producing oil and gas properties. 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 as at September 30, 2014 relate to the following permits:

Permit	Type	2014	2015 to 2016	2017 and onwards	Total
		$	$	$	$
Taranaki Basin					
Eltham Permit	Exploration	8,500	442,000	3,825,000	4,275,500
Alton Permit	Exploration	2,692,800	2,448,000	-	5,140,800
		2,701,300	2,890,000	3,825,000	9,416,300
East Coast Basin					
East Cape Permit	Exploration	17,336	11,941,250	10,625,000	22,583,586
		17,336	11,941,250	10,625,000	22,583,586
Total		**2,718,636**	**14,831,250**	**14,450,000**	**31,999,886**

Subsequent to the period ended September 30, 2014, the Company was granted an extension to November 22, 2015 for drilling of a commitment well on the Alton Permit (see note 17(d)), which would defer $2,692,800 of the work program commitments (presented as part of 2014 in the table above), to 2015. Thus, the remaining work program commitments for 2014 would amount to $25,836.

17. SUBSEQUENT EVENTS

a) On October 1, 2014, the Company received approval to extend the expiry date of 24,452,178 private placement warrants from October 28, 2014 to October 28, 2015. These warrants still maintain an exercise price of $0.45 which entitles the holder to acquire one common share of the Company.

b) On October 3, 2014, the Company issued 55,000 share purchase options with an exercise price of $0.45 to an employee.

c) On October 28, 2014, 3,045,849 advisor warrants with an exercise price of $0.33 per warrant (Note 11(d)) expired unexercised.

d) During October, NZEC and L&M Energy were granted an extension to November 22, 2015 for drilling of a commitment well on the Alton Permit.

e) Subsequent to September 30, 2014, the Company drew down from the Facility (Note 10) an additional NZ$316,211 in advances and capitalized interest, bringing the total outstanding balance to NZ$401,570.

f) On November 24, 2014, the Company announced that, in an ongoing effort to reduce overheads, it will close its Vancouver, Canada office on December 31, 2014. The Board of Directors also resolved to terminate the management agreement with J. Proust and Associates (Note 14), effective December 31, 2014. Services previously provided by the Vancouver office will be absorbed by the Company's New Zealand-based staff, or outsourced as required.