

## NEWS RELEASE

### New Zealand Energy Announces Second Quarter Financial Results

**August 29, 2012 – Vancouver, British Columbia** – New Zealand Energy Corp. (“NZE” or the “Company”) (TSX-V: NZ, OTCQX: NZERF), has released the results of its second quarter ended June 30, 2012. Details of the Company’s financial results are described in the Unaudited Consolidated Financial Statements and Management’s Discussion and Analysis which, together with further details on each of the Company’s projects, are available on the Company’s website at [www.newzealandenergy.com](http://www.newzealandenergy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). All amounts are in Canadian dollars unless otherwise stated.

#### HIGHLIGHTS

- Entered into binding agreement to acquire strategic upstream and midstream assets
- Strengthened management team
- 55,226 barrels of oil produced and 58,952 barrels of oil sold in Q2-2012
- 95,078 barrels of oil produced and 93,611 barrels of oil sold year to date
- Generated positive cash flow from production in Q2-2012 of \$5.4 million resulting from netbacks of US\$78.12/bbl
- Generated positive cash flow year to date of \$9.9 million with an average netback of US\$82.71/bbl
- Average production in August of 672 barrels of oil equivalent per day<sup>1</sup>
- Strong balance sheet with \$43.8 million of cash and cash equivalents as at August 28, 2012
- Received indicative term sheet from preferred lender to establish credit facility

#### FINANCIAL SNAPSHOT

	For the three months ended June 30, 2012	For the three months ended March 31, 2012	For the year ended December 31, 2011
Production	55,226 bbl*	39,852 bbl*	11,623 bbl*
Sales	58,952 bbl	34,659 bbl	9,567 bbl
Price	105.28 \$/bbl	117.94 \$/bbl	106.83 \$/bbl
Production costs	22.14 \$/bbl	22.25 \$/bbl	23.44 \$/bbl
Royalties	5.02 \$/bbl	5.16 \$/bbl	4.96 \$/bbl
Field netback	78.12 \$/bbl	90.53 \$/bbl	78.43 \$/bbl
Revenue	\$ 5,910,993	\$ 3,908,683	\$ 974,517
Preproduction recoveries	759,280	1,351,630	950,440
Total comprehensive income (loss)	1,317,915	799,032	(6,655,829)
Interest income	140,315	18,311	119,583
Earnings (loss) per share - basic	0.01	0.00	(0.08)
Earnings (loss) per share - diluted	0.01	0.00	(0.08)
Current assets	59,205,659	76,167,931	19,293,345
Total assets	98,814,102	96,979,923	31,152,804
Total liabilities	5,737,495	6,017,299	1,383,376
Shareholders’ equity	93,076,607	90,962,624	29,769,428

<sup>1</sup> Barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

\* The abbreviation bbl means barrel or barrels of oil.

During the six-month period ended June 30, 2012, the Corporation produced 95,078 barrels of oil and sold 93,611 barrels from Copper Moki-1 and Copper Moki-2. Copper Moki-3 flowed 7,456 barrels and 4,765 thousand cubic feet ("Mcf")<sup>2</sup> of natural gas during production testing in the second quarter and commenced continuous production on July 2, 2012. Preproduction revenue generated during the start-up and testing phase of the well was treated as a cost recovery of the capitalized well development costs. Total recoveries on the oil produced and sold during the start-up and testing phase of Copper Moki-3 amounted to \$759,280, or \$101.83 per barrel.

The aggregate volume of oil produced during the six-month period ended June 30, 2012, including production testing of Copper Moki-2 and Copper Moki-3, was 115,403 barrels with 115,968 barrels sold, taking into consideration the opening period inventory balances, resulting in positive cash flow from operations of \$9,853,825.

At August 28, 2012, the Corporation had \$43.8 million in cash and cash equivalents.

## **RECENT TRANSACTIONS**

In May 2012, the Corporation entered into a binding agreement (the "Origin Agreement") with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited (collectively "Origin") to acquire upstream and midstream assets (the "Acquisition"). These assets include four Petroleum Mining Licenses totalling 26,907 acres (the "Petroleum Licenses") as well as the Waihapa Production Station and associated gathering and sales infrastructure.

Under the terms of the Origin Agreement, and pursuant to an exclusive arrangement, the Corporation has agreed to pay Origin consideration in the amount of \$42 million in cash, payable in the US\$ equivalent at a fixed C\$/US\$ exchange rate of 1.0349, and such other adjustments as may be required at closing. A \$5 million non-refundable deposit was paid with the remainder due on closing, which is anticipated to occur in Q4-2012. Closing of the Acquisition is contingent on receiving government approvals, Origin completing the current recommissioning of the TAWN LPG extraction facility, Origin and/or NZEC entering into an agreement with Contact Energy regarding ongoing operation of Contact's Ahuroa gas storage facility, and standard TSX Venture Exchange approvals.

Upon announcing the Origin Acquisition, NZEC set aside funds for the transaction by converting Canadian dollar cash balances to US\$26 million, which was deposited into a US\$ bank account to protect the Corporation against currency fluctuations. The remaining approximately US\$9.8 million outstanding and due upon closing will be funded from operational cash flows, which are received in US\$.

## **Exploration Assets**

Pursuant to the Origin Agreement, NZEC will acquire four Petroleum Licenses in the main production fairway of the Taranaki Basin, contiguous with the northern border of NZEC's Eltham and Alton permits. The Petroleum Licenses offer multi-zone potential from the Urenui, Mt. Messenger, Moki, Kapuni and Tikorangi formations. The Petroleum Licenses are permitted and renewable without relinquishment, subject to government approval. Included are 16 established drill pads, most with production infrastructure in place, which will allow for timely tie-in to the Waihapa Production Station upon exploration and completion success.

The Acquisition includes 93 km<sup>2</sup> of 3D seismic data with coverage over approximately 50% of the Petroleum Licenses and 585 km of 2D seismic data. NZEC has access to well log data from 27 previously drilled wells, offering additional insight into the geology of the area. Numerous existing wells offer uphole completion opportunities in NZEC's target formation, with well log data demonstrating production potential from the Mt. Messenger and Kapuni formations and good hydrocarbon shows from the Moki and Urenui formations.

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<sup>2</sup> Natural gas and associated natural gas liquids are currently being flared until the well can be tied into NZEC's natural gas pipeline.

NZEC's technical team has completed a preliminary review of the 3D seismic and well log data covering the southern half of the Petroleum Licenses and identified 8 Urenui leads, 14 Mt. Messenger leads and 8 Moki leads, significantly expanding NZEC's drilling inventory in the Taranaki Basin. NZEC will refine and prioritize these leads within the context of its 2013 exploration program.

### **Production and Infrastructure Assets**

The Waihapa Production Station is located approximately three kilometres from NZEC's Copper Moki site and is central to NZEC's inventory of exploration prospects, thereby reducing transportation and processing costs for NZEC's oil and gas production. As the only open-access midstream facility in the Taranaki Basin, the Waihapa Production Station offers business opportunities for processing third-party gas, liquids, oil and water. Origin will continue as operator of the Production Station during a transition period through to mid-2013.

The Waihapa Production Station and associated infrastructure includes:

- a 45 mmcf/d gas processing, gas compression and LPG extraction facility ("TAWN facility");
- a 51-km 8-inch gas sales pipeline from the Waihapa Production Station to the Stratford Gas Power Generation Plant then terminating in New Plymouth;
- 59 km of oil/gas mixed product pipelines including gas lift lines;
- a 25,000 bbl/d oil processing facility;
- a 49-km oil sales pipeline from the Waihapa Production Station to the Omata Tank Farm, capable of transporting up to 15,500 bbl/d; and
- an 18,000 bbl/d water disposal processing system.

### **RECENT DEVELOPMENTS**

On August 19, NZEC commenced drilling of the Waitapu-1 well at its newly-established Waitapu site, approximately 1.3 km south of the Corporation's Copper Moki site. Waitapu-1 has a target depth of 2,172 metres and is expected to drill through the Mt. Messenger formation.

On July 9, NZEC announced the commencement of continuous production from its Copper Moki-3 well. The well is producing from natural reservoir pressure through a 18/64 inch choke out of the Mt. Messenger formation, producing at an average rate of 219 bbl/d and 252 Mcf/d<sup>2</sup> during the month of August. NZEC also announced the completion of a production test for Copper Moki-4, the Corporation's first Urenui formation well. The well produces 29° API and is currently shut in while NZEC completes the well test analyses and economic evaluation of artificial lift systems required to make a production decision.

NZEC is expanding and restructuring its leadership team to support continued growth in all areas of its business. Chris Bush has been appointed New Zealand Country Manager, commencing in October. Mr. Bush is an experienced oil and gas professional with more than 30 years of experience in both upstream and downstream sectors. As NZEC's New Zealand Country Manager, Mr. Bush will oversee all aspects of the Company's in-country activities, including government and community relations, production activities, acquisition/partnership opportunities, and integration of the Petroleum Licenses and Waihapa Production Station that NZEC has agreed to acquire pursuant to the Origin Agreement. Mike Oakes joined NZEC as General Manager Midstream Operations on August 6. Mr. Oakes has worked in the oil and gas industry for 33 years overseeing design, commissioning and start up, staffing and operation of both onshore and offshore oil and gas fields and production facilities. As General Manager Midstream Operations, Mr. Oakes will be responsible for all producing wells and operation of the Waihapa Production Station. James Watchorn joined NZEC as Operations Manager on July 30, bringing more than 15 years of technical experience in oilfield operations to the Corporation. Mr. Watchorn is a mechanical engineer experienced in all aspects of drilling, completions and production, along with facility and wellsite construction. As Operations Manager, Mr. Watchorn will work with NZEC's General Manager Upstream Operations to design and execute the Corporation's exploration and production strategy. As part of the restructuring, Bruce McIntyre has been appointed

to the role of Executive Director and Cliff Butchko has been appointed to the role of General Manager Upstream Operations.

NZEC is in advanced discussions with potential lenders regarding a reserve-based borrowing facility, and has received an indicative term sheet from its preferred lender.

## **PROPERTY REVIEW**

### **Taranaki Basin**

The Taranaki Basin is situated on the west coast of the North Island and is currently New Zealand's only oil and gas producing basin, producing approximately 130,000 boe/d from 18 fields. Within the Taranaki Basin, NZEC holds a 100% interest in the Eltham Permit, which covers approximately 93,167 acres (377 km<sup>2</sup>) of which approximately 31,877 acres (129 km<sup>2</sup>) are offshore in shallow water, and a 50% interest in the Alton Permit in joint venture with L&M. The Alton Permit covers approximately 119,204 onshore acres (482 km<sup>2</sup>). On February 21, 2012, NZEC entered into an agreement with L&M whereby NZEC can increase its interest in the Alton Permit to 65% by funding the collection and processing of 3D seismic data over approximately 50 km<sup>2</sup> of the permit. NZEC expects to deliver the 3D seismic data to L&M and earn its 65% interest in Q3-2012.

NZEC also expects to acquire four Petroleum Licenses and the Waihapa Production Station upon completion of the Acquisition, as outlined in the Origin Agreement.

NZEC has made four consecutive oil discoveries in the Taranaki Basin. NZEC's Copper Moki-1 well has been flowing from natural reservoir pressure from the Mt. Messenger formation since December 10, 2011. Copper Moki-2 has been flowing from natural reservoir pressure out of the Mt. Messenger formation since April 1, 2012. Copper Moki-3 has been flowing from natural reservoir pressure out of the Mt. Messenger formation since July 2, 2012. The wells are producing 41.8° API oil that is trucked to the Shell-operated Omata tank farm and sold at Brent pricing, resulting in a field netback of approximately US\$78/barrel in Q2-2012. NZEC calculates the netback as the oil sale price less fixed and variable operating costs and a 5% royalty. The netback reflects an average realized oil price in Q2-2012 of US\$105, and will fluctuate based on variances in oil price. Copper Moki-4 is currently shut in while NZEC completes the well test analyses and economic evaluation of artificial lift systems required to make a production decision. Total corporate production in August averaged 672 boe/d (465 bbl/d and 1,247 Mcf/d).

NZEC has completed a natural gas pipeline from the Copper Moki site to the Waihapa Production Station. The operator is finalizing arrangements to receive the gas and NZEC expects to begin generating cash flow from its natural gas production shortly. Copper Moki-1 and Copper Moki-2 are tied into the natural gas pipeline and produced approximately 995 Mcf/d of natural gas during the month of August. NZEC expects to tie Copper Moki-3 into the natural gas pipeline before year-end.

On August 19, NZEC commenced drilling of the Waitapu-1 well at its Waitapu pad. Waitapu-1 has a target depth of 2,172 metres and is expected to drill through the Mt. Messenger formation.

### **East Coast Basin**

The East Coast Basin of New Zealand's North Island hosts two highly prospective shale formations, the Waipawa and Whangai, which are the source of more than 300 oil and gas seeps. Within the East Coast Basin, NZEC holds a 100% interest in the Castlepoint Permit, which covers approximately 551,042 onshore acres (2,230 km<sup>2</sup>), and a 100% interest in the Ranui Permit, which covers approximately 223,087 onshore acres (903 km<sup>2</sup>) and is adjacent to the Castlepoint Permit. On September 3, 2010, NZEC applied to the Minister of Energy to obtain a 100% interest in the East Cape Permit. The application is uncontested and the Corporation expects the East Cape Permit to be granted to NZEC upon completion of New Zealand Petroleum & Minerals' review of the application. The East Cape Permit covers approximately 1,067,495 onshore acres (4,320 km<sup>2</sup>) on the northeast tip of the North Island.

NZEC has completed the coring of two test holes on its Castlepoint Permit. The Orui (125 metres total depth) and Te Mai (195 metres total depth) collected data across the Waipawa and Whangai shales. NZEC also completed a test hole on its Ranui Permit. Ranui-2 was drilled to 1,440 metres, coring the Whangai shale across several intervals. In Q2-2012, NZEC completed 70 line kilometres of 2D seismic data across the Castlepoint and Ranui permits to further its technical understanding of the area.

## **OUTLOOK**

### **Taranaki Basin**

With three wells in production, NZEC is focused on growing reserves, production and cash flow. NZEC is permitting a number of new drill pads as the Company advances toward its objective of drilling eight additional conventional wells and increasing production to 3,000 barrels of oil equivalent per day by year-end 2012. The Corporation has entered into a rig contract with Ensign International Energy Services Pty Ltd. and on August 19 commenced drilling the Waitapu-1 well.

With completion of the four Copper Moki wells, NZEC has gained tremendous insight into the Moki, Mt. Messenger and Urenui formations. While the Mt. Messenger formation remains the Company's primary target, NZEC's drilling inventory includes a number of leads with Moki targets and the Corporation expects that at least two of the eight wells will be drilled to the deeper Moki formation.

On its Eltham and Alton permits in the Taranaki Basin, NZEC has identified six prospects on 3D seismic similar to Copper Moki, with the expectation of establishing one pad per prospect with two to four wells per pad. NZEC has also identified 12 leads on 2D seismic that will be further defined with data from the recently acquired 100 km<sup>2</sup> 3D seismic survey. The 3D seismic survey will further define existing prospects and reduce drilling risk while potentially identifying new exploration leads and expanding NZEC's inventory locations for its 2013 exploration program.

New exploration leads and uphole completion opportunities on the Petroleum Licenses will further expand NZEC's drill inventory. NZEC's technical team is completing a thorough review of the Petroleum Licenses to further define exploration leads and uphole completion opportunities, and determine the status of existing wells, drill pads and surface facilities. Once the Acquisition is complete, these exploration opportunities will be ranked in comparison to the Corporation's Eltham and Alton leads to plan future exploration programs. NZEC plans to drill at least one well per month in the Taranaki Basin in 2013.

### **East Coast Basin**

NZEC has drilled two stratigraphic holes on its 100% working interest Castlepoint Permit and one stratigraphic hole on its 100% working interest Ranui Permit. These three stratigraphic test wells will advance NZEC's understanding of the Waipawa and Whangai formations. A review of the geochemical and physical properties of the two shale packages, coupled with information from existing seismic data and the newly completed 70 km 2D seismic survey, will help focus NZEC's exploration strategy for the East Coast shales. NZEC plans to drill at least one exploration well on the East Coast Basin in 2013.

The Corporation's application for the East Cape Permit is uncontested and NZEC expects the permit to be granted upon the completion of New Zealand Petroleum & Minerals' review of the application.

## **RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2012**

### **Revenue**

During the three-month period ended June 30, 2012, the Corporation produced 55,226 barrels of oil and sold 58,952 barrels for total revenues of \$6,206,749, or \$105.28 per barrel. Total recorded gross production revenue was

\$5,910,993, which accounted for royalties of \$295,756, or \$5.02 per barrel sold. No revenues or royalties were recognized during the same period in fiscal 2011.

### **Expenses and Other Items**

Production costs during the three-month period ended June 30, 2012 totalled \$1,305,452, or \$22.14 per barrel. Included in production costs are all site-related expenditures, including applicable equipment rental fees, site services, overheads and labour; transportation and storage costs including trucking, testing, tank storage, processing and handling; and port dues as incurred prior to the sale of oil. No production costs were incurred during the same period in fiscal 2011.

Depreciation and accretion costs incurred during the three-month period ended June 30, 2012 totalled \$1,519,447, or \$25.77 per barrel sold. Depreciation is based on using the unit-of-production method by reference to the ratio of production in the period to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to access those reserves. No depreciation and accretion costs were incurred during the same period in fiscal 2011.

Stock-based compensation for the three-month period ended June 30, 2012 totalled \$467,875 compared to \$nil during the same period in 2011. The non-cash charge incurred during the period related to the options granted to directors, officers and employees of the Corporation upon the completion of the Corporation's initial public offering in August 2011 and subsequent grants to new employees.

General and administrative expenses for the three-month period ended June 30, 2012 totalled \$1,007,617 compared to \$1,102,503 incurred in the same period in fiscal 2011. The general and administrative expenses incurred during the period related to professional fees, management fees, consulting fees, travel and promotion, rent, overheads, filing and insurance costs. See Note 11 to the June 30, 2012 unaudited condensed consolidated interim financial statements for detail.

Transaction costs for the three-month period ended June 30, 2012 totalled \$200,779 compared to \$nil incurred in the same period in fiscal 2011. The transaction costs incurred during the period included legal and professional fees incurred for the Origin transaction.

Finance income for the three-month period ended June 30, 2012 totalled \$140,315 compared to \$19,222 in the same period in fiscal 2011. Finance income relates to interest earned on the Corporation's cash and cash-equivalent balances held in treasury.

Foreign exchange loss for the three-month period ended June 30, 2012 amounted to \$615,552 compared to a \$5,140 gain realized in the same period of fiscal 2011. Foreign exchange gains and losses are a result of currency exchange differences being recognized on transactions during the period.

### **Total Comprehensive Income (Loss)**

Total comprehensive income for the three-month period June 30, 2012 totalled \$1,317,915 after taking into account a gain on the exchange difference on translation of foreign currency of \$383,329, which compared to a total comprehensive loss for the three-month period ended June 30, 2011 of \$773,524.

Based on a weighted average shares outstanding balance of 121,769,105, and diluted weighted average shares outstanding of 122,843,464, the Corporation realized a positive \$0.01 basic and diluted earnings per share for the three-month period ended June 30, 2012. During the period ended June 30, 2011, the Corporation realized a \$0.01 basic and diluted loss per share on a weighted average share balance of 77,010,000.

On behalf of the Board of Directors

*“John Proust”*

Chief Executive Officer & Director

### **About New Zealand Energy Corp.**

NZEC is an oil and natural gas company engaged in the production, development and exploration of petroleum and natural gas assets in New Zealand. NZEC's property portfolio collectively covers two million acres of conventional and unconventional prospects in the Taranaki Basin and East Coast Basin of New Zealand's North Island. The Company's management team has extensive experience exploring and developing oil and natural gas fields in New Zealand and Canada, and takes a multi-disciplinary approach to value creation with a track record of successful discoveries. NZEC plans to add shareholder value by executing a technically disciplined exploration and development program focused on the onshore and offshore oil and natural gas resources in the politically and fiscally stable country of New Zealand. NZEC is listed on the TSX Venture Exchange under the symbol NZ and on the OTCQX International under the symbol NZERF. More information is available at [www.newzealandenergy.com](http://www.newzealandenergy.com) or by emailing [info@newzealandenergy.com](mailto:info@newzealandenergy.com).

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### **Forward-looking Statements**

*This news release contains certain forward-looking information and forward-looking statements within the meaning of applicable securities legislation (collectively “forward-looking statements”). The use of any of the words “continues”, “expects”, “continues”, “increase”, “advances”, “will” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, including without limitation, the speculative nature of exploration, appraisal and development of oil and natural gas properties; uncertainties associated with estimating oil and natural gas resources; uncertainties in both daily and long-term production rates and resulting cash flow; volatility in market prices for oil and natural gas; changes in the cost of operations, including costs of extracting and delivering oil and natural gas to market, that affect potential profitability of oil and natural gas exploration; the need to obtain various approvals before exploring and producing oil and natural gas resources; the need to obtain government approval of work programs before exploring or developing the Petroleum Licenses; uncertainty in the timing of receipt of permits and the Company's ability to extend the permits if required; exploration hazards and risks inherent in oil and natural gas exploration; operating hazards and risks inherent in oil and natural gas operations; market conditions that prevent the Company from raising the funds necessary for exploration and development on acceptable terms or at all; global financial market events that cause significant volatility in commodity prices; unexpected costs or liabilities for environmental matters; competition for, among other things, capital, acquisitions of resources, skilled personnel, and access to equipment and services required for exploration, development and production; changes in exchange rates, laws of New Zealand or laws of Canada affecting foreign trade, taxation and investment; failure to realize the anticipated benefits of acquisitions; and other factors as disclosed in documents released by NZEC as part of its continuous disclosure obligations. Information concerning reserves may also be deemed to be forward looking as estimates imply that the reserves described can be profitably produced in the future. NZEC believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements included in this news release should not be unduly relied upon. These statements speak only as of the date of this news release and NZEC does not undertake to update any forward-looking statements that are contained in this news release, except in accordance with applicable securities laws.*

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