



TAIPAN RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Taipan Resources Inc.

We have audited the accompanying consolidated financial statements of Taipan Resources Inc., which comprise the consolidated statements of financial position as at October 31, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Taipan Resources Inc. as at October 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Taipan Resources Inc. to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 25, 2016

TAIPAN RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	October 31, 2015	October 31, 2014
ASSETS		
Current		
Cash	\$ 2,423,275	\$ 1,504,078
Deposits and prepaid expenses	9,369	221,537
Receivables (Note 4)	613,116	3,803,865
Marketable securities (Note 5)	18,183	133,735
	<u>3,063,942</u>	<u>5,663,215</u>
Equipment (Note 6)	-	51,945
Exploration and evaluation assets (Notes 7)	<u>-</u>	<u>12,203,101</u>
	<u>\$ 3,063,942</u>	<u>\$ 17,918,261</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 2,022,964	\$ 3,268,290
Shareholders' equity		
Share capital (Note 9)	33,608,036	34,212,536
Subscriptions receivable (Note 9)	-	(604,500)
Reserves (Note 9)	2,541,020	2,541,020
Accumulated other comprehensive income	1,388,371	1,346,781
Deficit	<u>(36,496,449)</u>	<u>(22,845,866)</u>
	<u>1,040,978</u>	<u>14,649,971</u>
	<u>\$ 3,063,942</u>	<u>\$ 17,918,261</u>
Nature of operations and going concern (Note 1)		
Commitments and contingencies (Note 12)		

Approved and authorized by the Board on February 24, 2016:

"Maxwell Birley" Director "Joel Dumaesq" Director

The accompanying notes are an integral part of these consolidated financial statements.

TAIPAN RESOURCES INC.**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

For the year ended October 31	2015	2014
EXPENSES		
Accounting and legal	\$ 556,079	\$ 398,781
Exploration (recovery) expenditures	136,248	(94,197)
Filing and regulatory	60,298	131,244
Foreign exchange (gain) loss	(318,069)	133,888
Management and consulting	3,585	790,489
Office, rent and administrative	366,263	549,986
Promotion	305,917	635,714
Share-based payments (Note 9)	-	947,470
Travel	275,366	386,943
	(1,385,688)	(3,880,318)
OTHER		
Unrealized loss on marketable securities (Note 5)	(115,552)	(164,384)
Receivable allowance	-	(31,106)
Impairment of exploration property (Note 7)	(12,203,101)	-
Write-off of accounts payable and accrued liabilities	53,759	55,553
Loss for the year	\$ (13,650,583)	\$ (4,020,255)
Loss for the year	(13,650,583)	(4,020,255)
Other comprehensive loss:		
Change in cumulative translation adjustment	41,590	1,346,781
Comprehensive loss for the year	\$ (13,609,003)	\$ (2,673,474)
Basic and diluted loss per common share	(1.29)	(0.41)
Weighted average number of common shares outstanding	10,548,632	9,689,924

The accompanying notes are an integral part of these consolidated financial statements.

TAIPAN RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

For the year ended October 31	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (13,650,583)	\$ (4,020,255)
Non-cash items:		
Depreciation	-	8,877
Unrealized loss on marketable securities	115,552	164,384
Share-based payments	-	1,109,564
Receivable allowance	-	31,106
Write-off of accounts payable and accrued liabilities	(53,759)	(55,553)
Write-down of exploration property	12,203,101	-
Write-off of PPE	18,366	-
Gain on disposal of PPE	(8,782)	-
Changes in non-cash working capital items:		
Receivables	3,190,749	(3,824,113)
Deposits and prepaid expenses	212,168	(116,802)
Accounts payable and accrued liabilities	(1,191,567)	(3,381,315)
	<u>835,247</u>	<u>(10,084,107)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of PPE	42,360	-
Purchase of equipment	-	(60,822)
Cash from farm out partner	-	4,878,720
	<u>42,360</u>	<u>4,817,898</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	-	6,299,934
Share issuance costs	-	(167,980)
Exercise of stock options	-	487,500
Exercise of warrants	-	-
	<u>-</u>	<u>6,619,454</u>
Change in cash during the year	877,607	1,353,245
Effect of foreign exchange on cash	41,590	(121,098)
Cash, beginning of year	1,504,078	271,931
Cash, end of year	\$ 2,423,275	\$ 1,504,078
Cash paid for taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 13)

The accompanying notes are an integral part of these consolidated financial statements.

TAIPAN RESOURCES INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

Share capital							
	Number	Amount	Subscription Receivable	Accumulated Other Comprehensive Loss	Reserves	Deficit	Total
		\$	\$	\$	\$	\$	\$
Balance, October 31, 2013	8,529,936	26,188,849	-	-	2,231,189	(18,825,611)	9,594,427
Private placements	1,782,481	6,416,934	(117,000)	-	-	-	6,299,934
Share issuance costs – cash	-	(167,980)	-	-	-	-	(167,980)
Share issuance costs – shares	41,345	186,440	-	-	-	-	186,440
Share issuance costs – shares	-	(186,440)	-	-	-	-	(186,440)
Share issuance costs – warrants	-	(37,061)	-	-	37,061	-	-
Exercise of options	300,000	1,649,700	(487,500)	-	(674,700)	-	487,500
Shares issued as bonus (Note 12)	44,870	162,094	-	-	-	-	162,094
Share-based payments	-	-	-	-	947,470	-	947,470
Cumulative translation adjustment	-	-	-	1,346,781	-	-	1,346,781
Loss for the year	-	-	-	-	-	(4,020,255)	(4,020,255)
Balance, October 31, 2014	10,698,632	34,212,536	(604,500)	1,346,781	2,541,020	(22,845,866)	14,649,971
Loss for the year	-	-	-	-	-	(13,650,583)	(13,650,583)
Shares returned to treasury	(150,000)	(604,500)	604,500	-	-	-	-
Cumulative translation adjustment	-	-	-	41,590	-	-	41,590
Balance, October 31, 2015	10,548,632	33,608,036	-	1,388,371	2,541,020	(36,496,449)	1,040,978

On September 15, 2015 the Company completed a one-for-ten share consolidation. All references to capital stock, warrants, options and per share data have been adjusted retrospectively to reflect the Company's one-for-ten share consolidation for the years ended October 31, 2015 and 2014.

The accompanying notes are an integral part of these consolidated financial statements.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2015

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Taipan Resources Inc. (the "Company") was incorporated on June 5, 2006 in British Columbia under the Business Corporations Act. The Company is in the business of exploring for or purchasing, economically viable oil and gas resource deposits.

The Company's head office and principal address is 2630 – 1075 West Georgia Street, Vancouver, BC, V6E 3C9.

The Company's consolidated financial statements and those of its wholly controlled subsidiaries are presented in Canadian dollars.

The Company is in the process of exploring and evaluating its resource properties and has not yet determined whether the properties contain oil and gas reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred losses from inception and does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favorable terms. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate profitable operations in the future.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of Consolidation and Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These consolidated financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

2. BASIS OF PREPARATION (cont'd...)

Use of Estimates and Judgments (cont'd...)

Critical Accounting Estimates

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Because the Company's warrants have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Critical Accounting Judgments

The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project.

The Company has subsidiaries and must use judgment to determine the functional currency of each subsidiary and consolidates accordingly.

From time to time, certain claims, suits, and complaints may arise in the ordinary course of operations against the Company which require management to make certain estimates, judgments, and assumptions about the suit. In the opinion of management, any provisions related to such claims, if any, will be accrued when the claims meet the recognition criteria for contingent liabilities. Management is not aware of any material contingent liabilities which require recording in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign exchange

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. The Company's wholly owned subsidiary, Lion Petroleum Corp. changed its functional currency effective November 1, 2013 from the Canadian dollar to the United States dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions denominated in currencies other than the functional currency are recorded using the exchange rates prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are translated at the rates prevailing on the statement of financial position date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate prevailing on the statement of financial position date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in accumulated other comprehensive income (loss).

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations, being those entities that have a functional currency different from that of Taipan Resources Inc., are translated into Canadian dollars at the rate of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the period where these approximate the rates on the dates of transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Provision for environmental rehabilitation

The Company recognizes liabilities for legal, statutory, or constructive obligations associated with the retirement of oil and gas interests. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The increase in the provision due to the passage of time is recognized as interest expense.

Exploration and evaluation assets

Recognition and measurement

Pre-license costs are recognized in the statement of loss and comprehensive loss as incurred.

Exploration and evaluation ("E&E") assets include the costs of acquiring licenses and the fair value (at acquisition date) of E&E assets acquired in an asset acquisition. All costs related to the acquisition of oil and gas properties are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of comprehensive loss. The Company expenses costs related to the E&E of oil and gas properties as they are incurred.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units ("CGU's").

The technical feasibility and commercial viability of extracting an oil and gas resource is considered to be determinable when proven reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within property, plant and equipment referred to as oil and gas interests.

Development and production costs

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The Company has no development and production assets.

When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of PP&E are determined by comparing the net proceeds from disposal with the carrying amount of PP&E and are recognized in the statement of comprehensive loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Exploration and evaluation assets (Cont'd...)

Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For other assets, depreciation is recognized in profit or loss on either a straight-line or declining balance method over the estimated useful lives of each part of an item of PP&E. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not provide for that excess.

Share-based payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

If and when the stock options are exercised, the applicable amounts of reserves are transferred to share capital. On cancellation, expiry, or forfeiture, the value of stock options previously recorded is transferred to deficit from reserves.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Financial Instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. The Company's cash and marketable securities are classified as FVTPL. Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At October 31, 2015, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial instrument disclosures

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

TAIPAN RESOURCES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

New standards not yet adopted

A new financial instruments standard IFRS 9 replaces IAS 39 for classification and measurement of financial assets effective for annual periods beginning on or after January 1, 2018. The Company does not anticipate that the application of this standard to have a material impact on the results and financial position of the Company.

4. RECEIVABLES

Receivables are as follows:

	2015	2014
Trade receivables	\$ 41,391	\$ 29,632
Cash call receivable	<u>571,725</u>	<u>3,774,233</u>
Total	<u>\$ 613,116</u>	<u>\$ 3,803,865</u>

5. MARKETABLE SECURITIES

The Company holds 9,000,000 common shares of Tower Resources Plc received pursuant to the farm-in agreement (Note 7) that have been designated as fair value through profit and loss. The securities were received in the year ended October 31, 2014 at a value of \$298,119 which was adjusted to a fair market value of \$18,183 as at October 31, 2015 resulting in an unrealized loss of \$115,552 for the year. (2014- \$164,384)

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2015

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Furniture and Office Equipment	Motor Vehicles	Total
	\$	\$	\$
Year ended October 31, 2015			
Opening net book value	4,426	47,519	51,945
Additions	-	-	-
Disposals	-	(33,579)	(33,579)
Write-down	(4,426)	(13,940)	(18,366)
Closing net book value	-	-	-
 Year ended October 31, 2014			
Opening net book value	-	-	-
Additions	4,918	55,904	60,822
Depreciation charge	(492)	(8,385)	(8,877)
Closing net book value	4,426	47,519	51,945

Depreciation expense for the year ended October 31, 2015 of NIL (2014 - \$8,877) has been included in exploration and evaluation expenditures.

Assets to the amount of \$18,366 were written off during the year and included in exploration and evaluation expenditures.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2015

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS**Block 1 Property, Kenya**

The Company has a 20% participating interest in a Production Sharing Contract ("PSC") with the government of Kenya for Block 1.

On November 19, 2007, Lion Petroleum Corp. ("Lion") signed a PSC with the government of Kenya and acquired an undivided 100% participating interest in Block 1. Lion was obligated to incur exploration expenditures of US\$9,550,000 during the initial three-year exploration period. The majority of this expenditure obligation was transferred to a farm-in partner, East African Exploration (Kenya) Ltd, ("EAX"), a subsidiary of Afren PLC, who acquired a 50% interest in Block 1, acting as the operator, by taking over the expenditure obligations capped at US\$6,000,000 plus certain other costs capped at US\$500,000. Lion and EAX equally split all other expenditure obligations. EAX acquired an additional 30% interest in Block 1 by incurring an additional US\$6,000,000 in exploration expenditures. Following an extension of the initial exploration period to November 19, 2012 and the acquisition of a total of 1,900 kilometers of 2D seismic data meeting all outstanding commitments, Lion and EAX exercised their option to continue into the first additional exploration period of two contract years with a minimum expenditure obligation of US\$6,000,000.

The first additional exploration period expired on October 31, 2014. Prior to the expiry, EAX reached an agreement with government of Kenya to roll the commitments under the first additional exploration period the into a second additional exploration period which expires October 31, 2016. EAX is in the second additional exploration period with a minimum expenditure obligation of US\$6,000,000 and a commitment to drill two wells as part of the arrangement with the government.

Before the end of the initial exploration period, 30% of the original area of Block 1 was surrendered to the government of Kenya. As part of the agreement reached with the government, EAX was not required to relinquish an additional 30% of the remaining area of Block 1 before the end of the first additional exploration period. The government of Kenya has the option acquire an interest of up to 18% of the total interest in any development area. The government of Kenya will assume its share of costs, expenses and obligations based on its participating interest.

If and when the Lion is able to produce oil from Block 1, the government of Kenya will be given the following share of profit oil, in addition to any share arising under its participating interest:

Daily Production	Government Share
First 0 – 20,000 bopd	55%
Next 20,001 – 30,000 bopd	60%
Next 30,001 – 50,000 bopd	63%
Next 50,001 – 100,000 bopd	68%
Over 100,000 bopd	78%
*bopd - barrels of oil per day	

Taipan resolved its default on the Block with Afren PLC by paying US\$3,566,377 during fiscal 2014, restoring the Company's rights and entitlements to a 20% interest in Block 1.

On February 09, 2015 the Company commenced an arbitration action against EAX. In addition, Taipán has been notified by Afren/East African Exploration, its partner on Block 1, Kenya that as a result of security concerns in the area, the Government of Kenya, Ministry of Energy have granted a fifteen-month extension to the current Second Additional Exploration Period from the 8th October 2014 to the 7th January 2016. At the expiry of the extension period, the situation will be further reviewed. Afren/EAX and Lion continue to have a two well commitment on the block during the current exploration period.

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7. EXPLORATION AND EVALUATION ASSETS (cont'd...)**Block 2B Property, Kenya**

On September 17, 2008, Lion signed a PSC with the government of Kenya and acquired the option to obtain an undivided 100% participating interest in Block 2B, located in North East Kenya. Lion negotiated a study period whereby Lion could determine if it would take on the minimum expenditure obligations of the initial exploration period. On May 5, 2010, Lion decided to move from the study period into the initial exploration period of the PSC.

The initial exploration period of three contract years originally had a minimum expenditure obligation of US\$11,750,000 of which US\$6,000,000 represented a contingent well. The Company paid to the Ministry of Energy a US\$4,000,000 extension fee to extend the initial exploration period to June 1, 2013. In doing so, the minimum work program for the initial exploration period was agreed at 400 kilometres of 2D seismic for US\$4,500,000 and a block wide FTG survey for US\$2,000,000 (completed).

In 2013 the Company notified the government of Kenya that the Company elected to enter into the first additional exploration period of two contract years with a minimum expenditure obligation of US\$13,000,000. The work program in the first additional exploration period included the acquisition of 25 square kilometres of 3D seismic and the drilling of one well to 3,000 metres. After completion of the first additional exploration period, the Company had the option of entering a second additional exploration period of two contract years with an estimated expenditure obligation of US\$19,000,000 including further seismic and two exploration wells to 3,000 metres each. On June 01, 2015 the Ministry of Energy granted the Company a 6-month extension to December 01, 2015 on the first additional exploration period.

The government of Kenya has the option to acquire a participating interest of up to 18% of the total interest in any development area. The government of Kenya will assume its share of costs, expenses and obligations based on its participating interest. If and when the Lion is able to produce oil from Block 2B, the government of Kenya will be given the following share of profit oil, in addition to any share arising from its participating interest:

Daily Production	Government Share
First 0 – 20,000 bopd	55%
Next 20,001 – 30,000 bopd	60%
Next 30,001 – 50,000 bopd	63%
Next 50,001 – 100,000 bopd	68%
Over 100,000 bopd	78%
*bopd - barrels of oil per day	

Farm-out agreement with Premier Oil Investments Ltd.

During the year ended October 31, 2014, the Company entered into a farm-out agreement with Premier Oil Investments Ltd. ("Premier") a subsidiary of Premier Oil PLC whereby Premier acquired a 55% participating interest in Block 2B. Under the terms of the farm-out, Premier was responsible for carrying the Company through the cost of work for the first additional exploration period. Premier also provided a guarantee for the minimum work and expenditure obligations for the first additional exploration period of US\$13,000,000 and paid US\$1,000,000 to the Kenyan Revenue Agency for taxes related to the transaction. During the year ended October 31, 2015 the Company cash called US\$21,106,494 (2014 - US\$6,543,793) and received US\$19,778,188 which has been recorded as a reduction of exploration and evaluation expenditures in the statement of loss and comprehensive loss.

Farm-out agreement with Tower Resources (Kenya) Ltd.

During the year ended October 31, 2014, the Company completed a farm-out agreement with Tower Resources (Kenya) Ltd., a subsidiary of Tower Resources plc ("Tower"), whereby Tower has acquired a 15% participating interest in Block 2B. As part of the agreement, Tower paid US\$4,500,000 (received US\$4,025,000 with the balance remitted to the Kenyan Revenue Agency for taxes related to the transaction) and issued 9,000,000 common shares of Tower (Note 5) to the Company. Tower will make a contingent payment of US\$1,000,000 upon the spud of a second well on Block 2B.

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7. EXPLORATION AND EVALUATION ASSETS (cont'd...)**Block 2B Property, Kenya (cont'd...)**

Consideration received of \$5,176,839 was shown as a recovery against exploration and evaluation assets on the statement of financial position. During year ended October 31, 2015 the Company cash called US\$ 3,546,427 (2014 - \$NIL) and received US\$3,437,734 which has been recorded as a reduction of exploration and evaluation expenditures in the statement of loss and comprehensive loss

	2015	2014
Opening exploration and evaluation asset balance	\$ 12,203,101	\$ 15,912,061
Consideration received from farm-out agreements	-	(5,176,839)
Effect of foreign exchange	-	1,467,879
Impairment of exploration and evaluation assets	<u>(12,203,101)</u>	-
Ending exploration and evaluation asset balance	\$ -	\$ 12,203,101

On February 23, 2016 the Company completed drilling the Badada-1 well. Following completion of logging operations, the well was plugged and abandoned as a dry hole.

Following completion of operations on the Badada-1 well on Block 2B, Kenya, Premier Oil and Tower Resources exercised their rights to withdraw from the license. As a result, the working interests for Taipan through its Kenya-based subsidiary Lion Petroleum was adjusted to 100%.

As a result of the Company drilling a dry well and uncertainty surrounding any future exploration and development work on block 2B in Kenya the Company made the decision to write down the exploration and evaluation assets as at October 31, 2015.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	2015	2014
Trade payables	\$ 759,961	\$ 1,587,478
VAT and withholding tax payable	804,593	1,680,812
Accruals	<u>458,410</u>	<u>-</u>
Total	\$ 2,022,964	\$ 3,268,290

The Company is currently assessing the liability in collaboration with its Kenyan tax advisors in light off the exemption letters the Company has from the Kenyan treasury department. The Company feels that if any liability exists, it will be reduced significantly by working through the relevant VAT exemptions together with the assessment of applicable payments attracting withholding tax.

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(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES

a) Authorized share capital

Unlimited number of common and preferred shares without par value.

b) Issued share capital

During the year ended October 31, 2015:

- a) 150,000 shares relating to the exercise of stock options in prior year has been returned to Treasury.

During the year ended October 31, 2014:

- b) The Company completed a non-brokered private placement issuing 1,782,481 units at a price of \$3,60 per unit for gross proceeds of \$6,416,934. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of \$5,00 until April 4, 2018. In connection with the offering, the Company paid certain finders a cash commission and other costs totaling \$167,980, issued 41,344 units valued at \$186,440, and issued to the finders 12,773 common share purchase warrants exercisable with the same terms as the warrants attached to the units. A fair value of \$37,061 was attributed to these warrants using the Black-Scholes pricing model with an expected life of 4 years, volatility of 119%, dividend rate of 0%, and discount rate of 1.50%.
- c) The Company issued 44,870 common shares with a value of \$162,094 to the CEO (Note 10) as part of their annual compensation.
- d) The Company issued 300,000 common shares due to the exercise of stock options. There was \$487,500 receivable at October 31, 2014 related to the exercise of these options.

c) Escrow agreements

As at October 31, 2015, no common shares of the Company were subject to escrow. As at October 31, 2014, 193,165 common shares of the Company were subject to escrow as per two separate escrow agreements.

TAIPAN RESOURCES INC.

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9. SHARE CAPITAL AND RESERVES (cont'd...)

d) Stock options and warrants

On May 3, 2010, the TSX Venture Exchange accepted for filing the Company's Stock Option Plan which was approved by the Company's shareholders at the Annual General Meeting held April 26, 2010. A rolling stock option plan has been implemented whereby a maximum of 10% of the issued shares will be reserved for issuance under the plan. Shareholder approval must also be obtained yearly at the Company's Annual General Meeting and in addition, submitted for review and acceptance by the Exchange each year.

Stock option and share purchase warrants transactions are summarized as follows:

	Options		Warrants	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, October 31, 2013	810,000	\$ 3.40	5,328,589	\$ 4.10
Granted	340,000	3.60	1,860,099	5.00
Exercised	(300,000)	3.30	-	-
Cancelled	(5,000)	3.30	-	-
Balance, October 31, 2014	845,000	3.50	7,188,688	\$ 4.50
Expired	(25,000)	5.00	(1,940,000)	1.20
Balance, October 31, 2015 exercisable	820,000	\$ 3.50	5,248,688	\$ 5.45

As at October 31, 2015, incentive stock options were outstanding as follows:

	Number	Exercise price	Expiry date
Stock Options	250,000	\$ 3.25	January 21, 2017
	180,000	3.25	July 17, 2017
	50,000	5.00	September 27, 2017
	125,000	3.60	April 14, 2019
	215,000	3.60	October 8, 2019
	820,000		

As at October 31, 2015, share purchase warrants were outstanding as follows:

	Number	Exercise price	Expiry date
Share Purchase Warrants	2,352,354	\$ 6.00	July 16, 2017
	1,036,235	5.00	February 13, 2018
	1,702,988	5.00	April 4, 2018
	133,611	5.00	April 8, 2018
	23,500	5.00	April 8, 2018
	5,248,688		

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9. SHARE CAPITAL AND RESERVES (cont'd...)

d) Stock options and warrants (cont'd...)

During the year ended October 31, 2015 the Company granted NIL (2014 – 340,000) stock options to officers, consultants and directors. The weighted-average fair value of options granted and vested during the year was \$NIL per option (2014 - \$3.40). Total share-based payments recognized in the statement of loss and comprehensive loss for the year ended October 31, 2015 was \$NIL (2014 – \$947,470) for incentive options granted and vested. This amount was also recorded as reserves on the statement of financial position.

	2015	2014
Risk-free interest rate	-	1.43%
Expected life	-	5.00 years
Volatility	-	115%
Forfeiture rate	-	0%
Dividend rate	-	-

On September 15, 2015 the Company completed a one-for-ten share consolidation. All references to capital stock, warrants, options and per share data have been adjusted retrospectively to reflect the Company's one-for-ten share consolidation for the years ended October 31, 2015 and 2014.

10. RELATED PARTY TRANSACTIONS

The financial statements include the financial statements of Taipan Resources Inc. and its 100% owned subsidiary, Lion Petroleum Corp, a company incorporated in British Columbia.

Key management personnel comprise of the Chief Executive Office, Chief Financial Officer, and Directors of the Company. The remuneration of the key management personnel is as follows:

- Paid or accrued management, consulting, and exploration expenditures of \$1,371,449 (2014- \$1,003,832) to the CEO, CFO and non-executive directors.
- Paid or accrued office, rent, and administration fees of \$93,000 (2014 - \$72,000) to a company controlled by the CFO and director of the Company.
- Issued NIL (2014 – 250,000) stock options with a fair value of \$NIL (2014 - \$705,238).

The amount of \$335,535 (2014 - \$284,652) is due to related parties. All balances are unsecured, non-interest bearing, have no fixed repayment terms, and are due on demand.

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11. SEGMENTED INFORMATION

The Company operates in one industry segment, the oil and gas industry, and in two geographical segments, Canada and Kenya. All current exploration activities are conducted in Kenya. The net loss and assets identifiable with these geographic areas are as follows:

Loss for the year ended October 31	2015	2014
Canada	\$ 2,079,523	\$ 3,138,672
Kenya	<u>11,571,060</u>	<u>881,583</u>
	<u>\$ 13,650,583</u>	<u>\$ 4,020,255</u>
Long-term assets as at	October 31, 2015	October 31, 2014
Canada	\$ -	\$ -
Kenya	<u>-</u>	<u>12,255,046</u>
	<u>\$ -</u>	<u>\$ 12,255,046</u>

12. COMMITMENTS AND CONTINGENCIES

- a) The Company signed a consulting agreement with a Company ("CEO Holdco") controlled by the CEO of Taipan for a period of twelve months ending July 31, 2015 (renewed automatically unless terminated by either party). The Company may terminate the agreement at any time without further obligation, by providing CEO Holdco with a payment equal to the value of 6 (six) times the monthly fees which will amount to US\$307,400. The Company provided notice to CEO Holdco on November 19, 2015.
- b) Lion Petroleum received a formal notice from the High Court of Kenya of a temporary injunction at its Block 2B property. The injunction was later amended as the court agreed to allow the Company to continue drilling the Badada prospect on Block 2B. The Drilling of the well is now complete. In the opinion of management, and despite the fact that the lawsuit remains in place, the ultimate disposition of these matters is not likely to have a material adverse effect on the Company
- c) The Company is involved in a claim for consultancy fees under an alleged consultancy contract in the ordinary course of business. Parties are making attempts at an amicable, out of court settlement. In the opinion of management, the ultimate disposition of these matters is not likely to have a material adverse effect on the Company.

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

There were no non-cash transactions during the year ended October 31, 2015

During the year ended October 31, 2014, the Company:

- a) Granted 12,773 finder fee warrants valued at \$37,061;
- b) Issued 41,344 finders units valued at \$186,440; and
- c) Received 9,000,000 common shares of Tower with a fair value of \$298,119 as part of farm-out agreement.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**Financial Instruments**

Cash and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2015, the Company had a cash balance of \$2,423,275 to settle current liabilities of \$2,022,964. The Company is currently investigating financing and farm-out opportunities so that it has sufficient liquidity to meet liabilities when due.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance on-going exploration of its properties, such capital to be derived from the exercise of outstanding warrants and the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist mainly of cash calls from farm-out partners. The Company has been successful in recovering cash calls and believes credit risk with respect to receivables to be insignificant.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and restricted cash. The Company's current policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at October 31, 2015, the Company had investments in investment-grade short-term deposit certificates. Interest earned is negligible and therefore interest rate risk is very low.

b) Foreign currency risk

The majority of the Company's business is conducted in Kenya in United States dollars and Kenyan Shillings. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar, the Kenyan Shilling and the US dollar. Fluctuations in the exchange rate among the Canadian dollar, the Kenyan Shilling and the US dollar may have a material adverse effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

c) Price risk

The resource industry is heavily dependent upon the market price of the resources being extracted. There is no assurance that, even if commercial quantities of resources are discovered, a profitable market will exist for their sale. There can be no assurance that mineral prices will be such that the Company's properties can be extracted at a profit. Factors beyond control of the Company may affect the marketability of any resources discovered. The price of oil has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the Company's control. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

15. CAPITAL MANAGEMENT

The Company considers capital to be the elements of shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and development of its mineral property interests. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

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16. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2015	2014
Loss for the year before income tax	\$ (13,650,853)	(4,020,255)
Expected income tax (recovery)	(3,222,000)	\$ (1,046,000)
Changes in statutory, foreign tax, foreign exchange rates and other	(13,000)	(104,000)
Permanent differences	2,719,000	307,000
Share issuance costs	-	(92,000)
Adjustment to prior year provision	139,000	717,000
Change in unrecognized deductible temporary differences	<u>377,000</u>	<u>218,000</u>
Total income tax (recovery)	\$ -	\$ -

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

Significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2015	2014	Expiry Dates
Share issuance costs	\$ 399,000	\$ 618,000	2036 – 2038
Non-capital losses	13,248,000	10,028,000	2026 – 2035
Canadian eligible capital (CEC)	1,000	1,000	No expiry date
Marketable Securities	280,000	164,000	No expiry date
Exploration and evaluation assets	11,732,000	13,390,000	No expiry date
Investment tax credits	6,000	6,000	2030

Tax attributes are subject to review, and potential adjustment, by tax authorities.