GALE FORCE™
PETROLEUM

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2014 and 2013

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

MANAGEMENT'S REPORT

The Management of Gale Force Petroleum Inc. (the "**Company**") is responsible for the preparation of the consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of Management, where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurately and reliably recorded, that the consolidated financial statements accurately report the Company's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate, and that the Company's assets are properly safeguarded.

The Audit Committee, comprised of a majority of non-management directors, acts on behalf of the Board of Directors of the Company to ensure that Management fulfills its financial reporting and internal control responsibilities. The Audit Committee is responsible for meeting regularly with Management and the external auditors to discuss internal controls over financial reporting processes, auditing matters and various aspects of financial reporting. The Audit Committee reviewed the consolidated financial statements with Management and the external auditors, and recommended approval to the Board of Directors. The Board of Directors has approved these consolidated financial statements.

Davidson & Company LLP, an independent firm of Chartered Professional Accountants, appointed by the Board of Directors as the external auditor of the Company, has audited the consolidated statements of financial position as at June 30, 2014 and June 30, 2013, the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended June 30, 2014 and June 30, 2013. The external auditors conducted their audit in accordance with Canadian generally accepted auditing standards and have unlimited and unrestricted access to the Audit Committee.

M McLellan

Michael McLellan, CFA
Chief Executive Officer

Don DeMoss

Don DeMoss
Chief Financial Officer

Toronto, Canada
October 27, 2014

To the Shareholders of
Gale Force Petroleum Inc.

We have audited the accompanying consolidated financial statements of Gale Force Petroleum Inc., which comprise the consolidated statement of financial position as at June 30, 2014, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year 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 audit. We conducted our audit 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 auditor considers 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 audit 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 Gale Force Petroleum Inc. as at June 30, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The consolidated financial statements of Gale Force Petroleum Inc. for the year ended June 30, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on October 30, 2013.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

October 27, 2014

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GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Consolidated Statements of Financial Position
As At

(In U.S. dollars)	Note	June 30, 2014	June 30, 2013
ASSETS			
Current assets			
Cash		$ **195,538**	$ 719,957
Receivables	5	**648,649**	1,126,700
Secured note receivable – current portion	6	**100,000**	240,000
Inventory – oil & gas equipment		**16,945**	18,345
Prepaid		**89,802**	52,002
Total current assets		**1,050,934**	2,157,004
Property and equipment	7	**14,744,511**	18,647,122
Oil and gas investments	8	**1,303,388**	1,896,000
Deposits		**50,000**	50,818
Secured note receivable	6	**400,000**	128,431
Hedges (oil swaps)	12	**-**	306,231
Total non-current assets		**16,497,899**	21,028,602
Total assets		$ **17,548,833**	$ 23,185,606
LIABILITIES			
Current liabilities			
Payables	9	$ **762,704**	$ 1,179,139
Accrued liabilities	10	**640,701**	510,770
Subordinate notes payable	11	**701,255**	150,000
Hedges (oil swaps) – current portion	12	**193,448**	-
Embedded derivative liabilities	13	**-**	1,005,663
Total current liabilities		**2,298,108**	2,845,572
Bank facility	14	**4,750,000**	5,500,000
Hedges (oil swaps)	12	**92,426**	-
Decommissioning liabilities	15	**306,390**	863,240
Total non-current liabilities		**5,148,816**	6,363,240
Total liabilities		**7,446,924**	9,208,812
SHAREHOLDERS' EQUITY			
Capital stock – common shares	16	**23,951,749**	20,899,504
Capital stock – preferred shares	16	**2,649,971**	5,481,430
Broker's warrants	16	**-**	79,357
Shares committed for issuance	17	**99,505**	-
Contributed surplus		**2,309,837**	2,099,154
Other comprehensive income		**-**	592,612
Deficit		**(18,909,153)**	(15,175,263)
Total shareholders' equity		**10,101,909**	13,976,794
Total liabilities and shareholders' equity		$ **17,548,833**	$ 23,185,606

See accompanying notes to consolidated financial statements. Approved, on behalf of the Board of Directors, by:

Allan Bezanson, Chairman of the Board

Michael McLellan, CFA, Director and CEO

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended

(In U.S. dollars)	Note	June 30, 2014	June 30, 2013
REVENUES			
Oil and natural gas		**$ 4,148,156**	$ 4,995,070
Production taxes		**(190,564)**	(230,494)
Total revenues		**3,957,592**	4,764,576
EXPENSES (INCOME)			
Change in fair value of embedded derivative liabilities	13	**(1,005,663)**	(1,940,966)
Depreciation, depletion and amortization	7	**600,330**	1,010,976
Dissident shareholder dispute expenses	18	**-**	150,000
Financial expenses	19	**368,417**	473,188
Foreign exchange (gain) loss		**9,043**	(131,455)
General and administrative expenses	20	**1,188,010**	1,054,503
Loss on disposal of assets		**79,675**	468,169
Loss on impairment or sale of property and equipment	7	**3,855,645**	868,870
Loss on write-off of bad debts		**-**	133,651
Operating expenses	21	**1,670,431**	2,934,260
Realized (gain) loss on hedges	12	**103,356**	(445,319)
Restructuring costs		**162,000**	-
Severance tax incentives		**(63,193)**	-
Share-based compensation	16	**131,326**	14,666
Unrealized loss on hedges	12	**592,105**	930,620
Total expenses		**7,691,482**	5,521,163
Net loss before income taxes		**(3,733,890)**	(756,587)
Income taxes	22	**-**	-
Net loss after income taxes		**(3,733,890)**	(756,587)
Other comprehensive (loss) income			
Change in fair value of oil and gas investments	8	**(592,612)**	592,612
Net comprehensive loss		**$ (4,326,502)**	$ (163,975)
Weighted average number of outstanding shares	23		
Basic		**74,113,344**	64,120,419
Diluted		**89,309,356**	88,824,176
Net loss per share	23		
Basic		**$ (0.0504)**	$ (0.0118)
Diluted		**$ (0.0418)**	$ (0.0085)

See accompanying notes to consolidated financial statements.

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity
For the years ended June 30, 2014 and June 30, 2013

(In U.S. dollars)

	Common shares		Preferred shares		Broker's warrants		Shares committed for issuance	Contributed surplus	Other comprehensive (loss) income	Deficit	Total shareholders' equity
	Quantity	Amount	Quantity	Amount	Quantity	Amount					
Balance as at June 30, 2012	**62,401,342**	**$20,289,515**	**25,544,718**	**$ 6,084,836**	**2,728,516**	**$ 411,108**	**$ -**	**$ 1,752,737**	**$ -**	**$(14,418,676)**	**$14,119,520**
Shares issued (net of share issuance costs of $54,084)	250,000	6,583	-	-	-	-	-	-	-		6,583
Conversion of preferred shares	2,653,626	603,406	(2,653,626)	(603,406)	-	-	-	-	-		-
Broker's warrants expired	-	-		-	(2,286,638)	(331,751)	-	331,751	-		-
Share-based compensation	-	-	-	-	-	-	-	14,666	-		14,666
Net loss							-			(756,587)	(756,587)
Change in fair value of available for sale assets	-	-	-	-	-	-	-	-	592,612	-	592,612
Balance as at June 30, 2013	**65,304,968**	**$20,899,504**	**22,891,092**	**$ 5,481,430**	**441,878**	**$ 79,357**	**$ -**	**$ 2,099,154**	**$592,612**	**$(15,175,263)**	**$ 13,976,794**
Shares issued (net of share issuance costs of $13,166)	1,593,333	220,786	-	-	-	-	-	-	-	-	220,786
Conversion of preferred shares	12,145,364	2,831,459	(12,145,364)	(2,831,459)	-	-	-	-	-	-	-
Broker's warrants expired	-	-	-	-	(441,878)	(79,357)	-	79,357	-	-	-
Share-based compensation	-	-	-	-	-	-	-	131,326	-	-	131,326
Shares committed for issuance	-	-	-	-	-	-	99,505	-	-	-	99,505
Net loss	-	-	-	-	-	-	-	-	-	(3,733,890)	(3,733,890)
Change in fair value of available for sale assets	-	-	-	-	-	-	-	-	(592,612)	-	(592,612)
Balance as at June 30, 2014	**79,043,665**	**$23,951,749**	**10,745,728**	**$ 2,649,971**	**-**	**$ -**	**$ 99,505**	**$ 2,309,837**	**$ -**	**$(18,909,153)**	**$10,101,909**

See accompanying notes to consolidated financial statements.

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended

(In U.S. dollars)	Note	June 30, 2014	June 30, 2013
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss		**$ (3,733,890)**	$ (756,587)
Items not affecting cash flows:			
Unrealized loss on hedges contracts		**488,749**	930,620
Realized loss on put options and hedges		**103,356**	6,866
Foreign exchange loss (gain)		**9,043**	(131,455)
Change in fair value of embedded derivative liabilities		**(1,005,663)**	(1,940,966)
Share-based compensation		**131,326**	14,666
Loss on impairment or sale of property and equipment		**3,855,645**	873,870
Loss on disposal of assets		**79,675**	468,169
Depreciation, depletion and amortization		**600,330**	1,010,976
Non-cash accrued liabilities		**99,505**	12,882
Net change in non-cash working capital items	24	**(317,720)**	62,384
Net cash provided by operating activities		**310,356**	551,425
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		**(3,194,040)**	(6,403,112)
Dispositions of property and equipment		**2,412,200**	6,200,000
Investment in Marcellus	8	**-**	(600,000)
Net cash used in investing activities		**(781,840)**	(803,112)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank facility		**(750,000)**	(1,692,761)
Share capital – common shares		**-**	(54,084)
Subordinate loans		**601,255**	-
Note receivable		**95,810**	-
Net cash used in financing activities		**(52,935)**	(1,746,845)
Net cash decrease for year		**(524,419)**	(1,998,532)
Cash, beginning of year		**719,957**	2,718,489
Cash, end of year		**$ 195,538**	$ 719,957
Additional information:			
Interest Paid		**$ 278,455**	$ 419,437
Additional cash flow information	24		

See accompanying notes to consolidated financial statements.

NOTE 1 – INCORPORATION AND NATURE OF BUSINESS

The Company was continued under the *Canada Business Corporations Act* in 2001. The Company is a public oil and gas corporation focused on acquiring and exploiting underdeveloped and undervalued oil and gas reserves in mature basins, bringing operational expertise and capital to lower-risk, development-type projects. The Company currently owns producing oil and natural gas properties in Texas and Tennessee, as well as an investment in a limited liability company owning liquids-rich natural gas properties in West Virginia. The Company's corporate office is at 100 King Street West, Suite 5700, Toronto, Ontario M5X 1C7. The Company's head operations office is at 4925 Greenville Avenue, Suite 200, Dallas, Texas 75206.

NOTE 2 – BASIS OF PRESENTATION

Statement of compliance

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

The consolidated financial statements were authorized for issuance by the Board of Directors on October 27, 2014.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in Note 3.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiaries: GFP Texas Inc., GFP Central USA Inc., and Buccaneer Operating, LLC.

Intra-group balances, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Functional and presentation currency

The functional currency of the Company and of its wholly-owned U.S. subsidiaries is the U.S. dollar. The consolidated financial statements are presented in U.S. dollars. All references to US$ or to $ are to U.S. dollars and references to CA$ are to Canadian dollars.

The Company translates the foreign currency transactions and balances as follows: non-US$ denominated monetary assets and liabilities are translated at period-end exchange rates, while non-US$ denominated revenues and expenses are translated using the exchange rate on the date of the transaction or the average rates for the quarter in which they were incurred. Translation gains and losses related to the operations are included in the consolidated statement of operations and comprehensive loss.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Joint Interest Operations

A portion of the Company's exploration, development and production activities are conducted jointly with other working interest owners. These consolidated financial statements reflect only the Company's share of jointly controlled assets and its proportionate share of the related revenue and expenditures in such activities.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

(i) Recognition and Measurement

All financial instruments are classified into one of the following five categories: financial assets and liabilities at fair value through profit and loss ("FVTPL"), held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities measured at amortized cost. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

Held-to-maturity investments, loans and receivables, and other financial liabilities measured at amortized cost are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts are amortized into net income (loss), using the effective interest method.

Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive (loss) income until the asset is realized, at which time they will be recorded in net (loss) income. Financial assets and liabilities at FVTPL are measured at fair value. All gains and losses resulting from changes in their fair value are included in the consolidated statement of operations and comprehensive loss in the period in which they arise.

Transaction costs for financial instruments are expensed in the period incurred unless they are classified as financial assets or liabilities other than those at FVTPL, in which case they are added to the carrying amount of the financial instrument to which they relate and amortized over the term of the financial instrument using the effective interest rate method.

(ii) Fair Value

Fair value is estimated on a specific date through the use of the information available concerning the financial instrument itself. Estimates of fair value are of a subjective nature and cannot, in many cases, be established with any degree of precision. The Company has determined that the carrying value of its financial assets and liabilities subsequently measured at amortized cost approximates their fair value.

Financial instruments that are subsequently measured at fair value are classified into one of the following categories based on the degree to which fair value is observable:

Level 1: quoted prices (unadjusted) of identical instruments in active markets that the reporting entity has the ability to access at the measurement date.

Level 2: inputs are quoted prices of similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: one or more significant inputs used in a valuation technique are unobservable for the instruments.

The Company's financial instruments are classified as follows:

Financial Instrument	Classification	Level
Cash, receivables, secured note receivable, and deposits	Loans and receivables	N/A
Hedges (oil swaps)	Financial liabilities at FVTPL	Level 1
Oil and gas investments	Available-for-sale financial asset	Level 2
Payables, accrued liabilities and bank facility	Other financial liabilities	N/A
Subordinate notes payable	Financial liabilities at FVTPL	N/A

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, this reversal is recognized in profit or loss.

Non-financial assets

Non-financial assets are reviewed quarterly by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the cash generating unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount. The Company's oil and gas property interest impairment policy is more specifically discussed in Note 3 below.

(iv) Company Financial Instruments

(a) Oil and Gas investments

The Company's oil and gas investment in ICO Marcellus, LLC (see Note 8) is the only available-for-sale financial instrument held by the Company that gives rise to other comprehensive (loss) income.

(b) Hedges (oil swaps)

The Company enters into production swap agreements and purchases crude oil put options to reduce its exposure to oil price fluctuations. The intent of these instruments is not to speculate on future commodity prices, but rather to protect the downside risk to the Company's cash flows and to meet the hedging requirements of the Company's bank facility.

The Company recognizes the fair value of its put options and swaps, on the consolidated statement of financial position of each reporting period with the change in fair value recognized as a gain or a loss on the consolidated statement of operations and comprehensive loss. As at June 30, 2014, the aggregate fair value of the put options and swaps is ($285,874) (June 30, 2013: $306,231).

(c) Equity

Common shares and preferred shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects. Should there be a

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

repurchase of the Company's common shares, it would be accounted for as a reduction to share capital at the average stated amount per share at the time of repurchase.

Use of Estimates

The preparation of the Company's consolidated financial statements in compliance with IFRS requires management to make judgement, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Property and Equipment - Oil and Gas Assets

(i) Capitalized Costs

Oil and gas development and production properties are stated at cost, less accumulated depletion, depreciation and amortization and accumulated impairment losses. The Company capitalizes any costs directly associated with the acquisition or development of oil and natural gas reserves to where they are in the "proved producing reserves" category. Once an oil and gas well is producing fluids or gas from a particular formation in a particular way, and the facilities necessary to process these fluids or gas are in place, all costs associated with the production of this well or the maintenance of the facilities are considered repairs and maintenance expenses, and are deducted from income.

The Company capitalizes certain direct costs associated with the sourcing, evaluation, and transaction costs when purchasing new properties or in identifying how to extract reserves on existing properties, all of which are capitalized at the conclusion of the purchase of a property or at the time of the reserves assessment and development. Evaluation of properties may include costs associated with geological, engineering or operational feasibility studies. These costs are not related to the production or sales of oil and natural gas.

The Company also capitalizes the costs of bringing on new production from existing properties, including the costs of equipping a well, working over a well, re-completing a well and the construction of facilities necessary to process the fluids or gas produced by the well. These costs are not related to the ongoing production or sales of oil and natural gas, rather they are a necessary capital investment to bring a well into steady production. Moreover, until these costs have been incurred, there are risks as to whether any reserves from the well will be recoverable.

(ii) Depletion, Depreciation and Amortization

Oil and gas properties are depreciated on a unit-of-production basis over the proved and probable reserves of the field concerned, except in some cases for assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area.

The unit-of-production rate for the amortization of field development costs takes into account expenditures, incurred to date, together with future development expenditures. An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized. The asset's residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For depletion and depreciation purposes, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

(iii) Impairment Test

The carrying amounts of the Company's property and equipment are reviewed at each reporting date to determine whether there is an indication of impairment. If such indicators exist, asset impairment testing will be performed.

For the purpose of impairment testing, assets are grouped into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from any other asset or group of assets (the "cash generating unit" or "CGU"). The carrying amount of the CGU is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment charge is recognized directly in the consolidated statement of operations and comprehensive loss when the carrying amount of the CGU exceeds its recoverable amount, and is allocated first to the carrying amount of any goodwill allocated to the CGU, and then on a pro rata basis to all the other assets included within the CGU.

Impairment losses on assets other than goodwill are subsequently reversed if there is an indication that the recoverable amount has increased beyond the carrying amount of the group of assets. The amount of the reversal shall not exceed the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss ever been recognized.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

(iv) Decommissioning Liabilities

The Company recognizes a decommissioning liability if it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property and equipment.

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss. The costs are amortized using the unit-of-production method.

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The Company estimates future cost of abandonment and rehabilitation costs on each of its properties assuming annual cost inflation and using a pre-tax risk-free rate to bring the liability to its present value. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the decommissioning liability and the related asset retirement expense. Increases in the decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities in the consolidated statement of operations and comprehensive loss.

Revenue Recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and are recorded gross of transportation charges incurred by the Company. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

Gains and losses on the sale of items of property and equipment, including oil and gas properties, are determined by comparing the proceeds of disposal less the carrying amount of the property sold.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. According to this method, deferred income taxes are determined based on the difference between the accounting and tax basis of assets and liabilities using the substantively enacted tax rates and fiscal laws expected to apply in the periods in which those differences are expected to reverse. Deferred income tax assets are recognized when it is more likely than not that the assets will be realized.

Earnings (loss) per Share

The Company calculates per common share amounts using net income (loss) available to the Company's shareholders divided by the weighted average number of common shares outstanding. Basic per share information is computed using the weighted average number of basic common shares outstanding during the period. Diluted per share information is calculated assuming that any proceeds from the exercise of "in-the-money" stock options or warrants, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive. The average market value of the Company's shares for the purpose of calculating the dilutive effect is based on average quoted market prices for the time that the options/warrants were outstanding during the period.

Share-Based Payments

The Company has established a share-based compensation plan which includes stock options. The Company records compensation expense in the consolidated statement of operations and comprehensive loss with a corresponding increase to contributed surplus for stock options granted to directors, officers, employees and consultants using the fair value method. Fair value is determined using the Black-Scholes option pricing model. Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches, based on the Company's estimate of equity instruments that will eventually vest.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Changes in Accounting Policies

(i) Effective for annual periods beginning on or after January 1, 2007

(a) IFRS 15, Revenue from Contracts with Customers

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

(ii) Effective for annual periods beginning on or after January 1, 2018

(a) IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

(iii) Recently adopted accounting standards

On July 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10); joint arrangements (IFRS 11); disclosure of interests in other entities (IFRS 12); fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards did not have an impact on the Company's consolidated financial statements.

(a) IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control.

(b) IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31, Interests in Joint Ventures. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31.

(c) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, Investments in Associates.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Changes in Accounting Policies – Recently adopted accounting standards (Continued)

(d) IFRS 13, Fair Value Measurement and Disclosure Requirement

Provides single source guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements.

(e) IFRS 7, Financial Instruments: Disclosures

Amended to enhance disclosure requirements related to offsetting of financial assets and financial liabilities

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and judgments about the future that affect the reported amounts of assets and liabilities in its consolidated financial statements. These estimates and judgments are continually evaluated based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from the estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in net income in the period of the change, or in the current and future periods if the change affects both.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amount of assets and liabilities within the next financial year are as follows:

Decommissioning Liabilities

Decommissioning liabilities have been recorded based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made that management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when regularly reviewed by management. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual decommissioning costs will ultimately depend on future market prices for the decommissioning costs which will reflect the market condition at the time that the decommissioning costs are actually incurred. The final cost of the currently recognized decommissioning liabilities may be higher or lower than currently provided for. In addition, since the Company has historically sold its oil and natural gas properties to third parties prior to incurring the decommissioning costs, it is possible that no costs will ever have to actually be incurred.

Depletion, Depreciation and Amortization

Proved and probable reserves estimates for each cost-generating unit are used as the denominator in the Company's unit-of-production depletion, depreciation and amortization calculations. These estimates are prepared in accordance with Canadian Securities Administrators' National Instrument 51-101 ("National Instrument 51-101"), but are subject to fluctuations due to changes in the price of oil, natural gas and its associates, lease operating expense cost of inflation and operations risks, reservoir performance and geological uncertainties. For depletion and depreciation purposes, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision, Management believes they have adequately provided for the probable outcome of these matters, however the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Share-Based Payments

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs for the valuation model, which includes the expected life of the instrument, and volatility. The assumptions used for estimating fair value of share-based payment transaction are disclosed in Note 16.

Oil and Gas Assets

The Company's property and equipment, which includes oil and gas reserves, are estimated by management and are evaluated and reported on by independent petroleum engineering consultants in accordance with National Instrument 51-101. The process of estimating reserves requires significant judgment in evaluating and assessing available geological, geophysical, engineering and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which, by their very nature, are subject to interpretation and uncertainty. The evaluation of recoverable reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are depleted using the unit of production method based on estimated proved reserves. Changes in estimates of reserves may materially impact the carrying value of the Company's oil and natural gas properties, the recorded amount of depletion and depreciation, the determination of the Company's decommissioning liabilities and the assessment of impairment provisions.

Fair Value of Embedded Derivatives

The fair value of financial liabilities not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select techniques and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company has used the Black-Scholes option pricing model to value the embedded derivative liability. The assumptions used for estimating the fair value of derivatives and financial instruments have been disclosed in Note 13. As at June 30, 2014, the Company had no embedded derivative liabilities, due to the expiration of the warrants on which they were based.

Allowance for doubtful accounts

The Company makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses receivable, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance of doubtful accounts. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(In U.S. dollars)

NOTE 5– RECEIVABLES

	June 30, 2014	June 30, 2013
Sales taxes receivable in CA$ (converted to US$)	**$ 2,552**	$ 39,051
Trade accounts receivable in CA$ (converted to US$)	**9,367**	29,667
Receivable from third party property owners	**205,155**	546,707
Revenues receivable	**431,575**	511,275
	$ 648,649	$1,126,700

NOTE 6 – SECURED NOTE RECEIVABLE

The Company holds a note receivable secured by a lien on a 50% working interest in the Thunder Properties plus the personal guarantee of the owner of these working interests (the "**Secured Note**"). The terms of the Secured Note will be amended when the Company sells its interests to the other working interest owner, the closing of which transaction is now expected in November, 2014, in accordance with the terms of a binding agreement signed on August 18, 2014 (the "**Thunder Sale Agreement**"). However, the impact of the Thunder Sale Agreement and the amending of the Secured Note have been recognized in these financial statements (see greater details described below in this section).

		June 30, 2014		June 30, 2013
Outstanding balance – beginning of year	**$**	**368,431**	$	592,628
Repayments during year		**(95,810)**		(224,197)
Addition of other amounts owing from receivables		**227,379**		-
Outstanding balance – end of year	**$**	**500,000**	$	368,431
Secured note receivable – current portion	**$**	**100,000**	$	240,000
Secured note receivable – non-current portion	**$**	**400,000**	$	128,431

Following the closing of the sale transaction, the amended Secured Note will be secured by a 100% working in the properties, have an interest rate of 12% per annum, and the Company will have the right to receive monthly interest and principal payments equal to the greater of $10,000 per month or the net profits from a 50% working interest in the Thunder Properties.

The balance of the Secured Note was $831,821 at issuance in October 17, 2011, which was repaid over time from net operating profits from the Thunder Properties to $272,621 on June 30, 2014. As part of the Thunder Sale Agreement, a combination of the $272,621 remaining owing under the Secured Note Receivable and other joint interest billing amounts owing from the other working interest owner in the property, will be converted to an aggregate negotiated balance of $500,000 owing, which was recognized in these statements. The current portion of the Secured Note Receivable is an estimate based on the minimum payments required under the note.

(In U.S. dollars)

NOTE 7 – PROPERTY AND EQUIPMENT

	Texas				Central USA		
	Gregg & Rusk Cos.	Wood County	Henderson & Anderson Cos.	South Texas	Tennessee	Oklahoma	Total
Cost							
Balance as at June 30, 2012	**$ 8,740,234**	**$ 6,368,967**	**$ 5,422,694**	**$ 1,974,897**	**$ 141,265**	**$ 1,124,406**	**$ 23,772,463**
Acquisitions	374,835	2,417,204	3,284,674	608,256	530	9,657	6,695,156
Disposition on sale	(6,841,524)	-	-	(122,178)	-	(1,134,063)	(8,097,765)
Impairment	-	-	-	(868,870)	-	-	(868,870)
Cap. decommissioning liabilities adjust.	(1,824,621)	125,505	41,809	-	-	-	(1,657,307)
Balance at June 30, 2013	**$ 448,924**	**$ 8,911,676**	**$ 8,749,177**	**$ 1,592,105**	**$ 141,795**	**$ -**	**$ 19,843,677**
Acquisitions	2,698	1,964,915	1,152,860	475,060	-	-	3,595,533
Disposition on sale	(426,998)	(2,274,118)	-	-	-	-	(2,701,116)
Impairment	(24,624)	(1,210,006)	(1,645,729)	(975,286)	-	-	(3,855,645)
Cap. decommissioning liabilities adjust.	-	(461,591)	(40,178)	28,941	-	-	(472,828)
Balance as at June 30, 2014	**$ -**	**$ 6,930,876**	**$ 8,216,130**	**$ 1,120,820**	**$ 141,795**	**$ -**	**$ 16,409,621**
Accumulated Depreciation, Depletion and Amortization (DD&A)							
Balance as at June 30, 2012	**$ 732,433**	**$ 231,401**	**$ 21,850**	**$ 163,630**	**$ 84,834**	**$ 43,248**	**$ 1,277,398**
Disposition on sale	(1,042,358)	-	-	-	-	(49,460)	(1,091,819)
DD&A	403,825	289,626	101,668	191,550	18,095	6,212	1,010,976
Balance as at June 30, 2013	**93,900**	**521,027**	**123,518**	**355,180**	**102,930**	**-**	**1,196,555**
Disposition on sale	(107,498)	(24,277)	-	-	-	-	(131,775)
DD&A	13,598	367,599	127,984	88,029	3,120	-	600,330
Balance as at June 30, 2014	**$ -**	**$ 864,349**	**$ 251,502**	**$ 443,209**	**$ 106,050**	**$ -**	**$ 1,665,110**
Net Book Values							
As at June 30, 2012	**$ 8,007,801**	**$ 6,137,566**	**$ 5,400,844**	**$ 1,811,267**	**$ 56,430**	**$ 1,081,158**	**$ 22,495,066**
As at June 30, 2013	**$ 355,024**	**$ 8,390,649**	**$ 8,625,659**	**$ 1,236,925**	**$ 38,865**	**$ -**	**$ 18,647,122**
As at June 30, 2014	**$ -**	**$ 6,066,527**	**$ 7,964,628**	**$ 677,611**	**$ 35,745**	**$ -**	**$ 14,744,511**

An impairment charge was recognized for three of the Cash Generating Units (CGUs), utilizing the values of these assets in sales that were concluded following the end of the year, or using most recent reserves studies reflecting the estimated future cash flows discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to each CGU. The Wood County CGU reflects the value given in the reserves study, while the Henderson & Anderson Counties and South Texas CGUs reflect the value of sales completed or under agreement after the end of the fiscal year.

(In U.S. dollars)

NOTE 8 – OIL AND GAS INVESTMENTS

		June 30, 2014	June 30, 2013
Membership interests in oil and gas company – beginning of year	$	**1,896,000**	$702,857
Investments during the year		**-**	600,531
Change in fair value (other comprehensive (loss) income)		**(592,612)**	592,612
	$	**1,303,388**	$1,896,000

On January 31, 2012, the Company purchased non-operated interests in the liquids-rich Marcellus shale gas field in Wetzel and Marshall Counties, West Virginia (the "Marcellus Properties"). The Marcellus Properties consist of approximately 10,000 acres, operated by a major oil and gas company, in which the Company owns approximately an average 1.1% interest through its 14.63% membership interest in ICO Marcellus, LLC. The Company has invested an aggregate amount of $1,303,388 in the Marcellus Properties.

In the previous fiscal year, one of the Company's co-investors in the Marcellus Properties sold part of their ownership, recognizing a 58% increase in value on the cash invested, requiring the Company to mark-to-market its Marcellus Property investment to fair value of $1,896,000 as at June 30, 2013. The $592,612 change in fair value was treated as other comprehensive (loss) income. During the current fiscal year, given poorer than expected performance of the investment due mainly to delays and lower returns from infrastructure capacity issues, and also to market environment for the Company's minority interest in the limited liability company that owns the Marcellus Properties, the Company has recognized a decrease in the market value of its interest in the ICO Marcellus, LLC, and as such, has adjusted the fair value of its investment.

NOTE 9 – PAYABLES

		June 30, 2014		June 30, 2013
Trade accounts payable in CA$ (converted to US$)	$	**127,221**	$	55,892
Trade accounts payable		**635,483**		1,123,247
Total payables	$	**762,704**	$	1,179,139

NOTE 10 – ACCRUED LIABILITIES

		June 30, 2014		June 30, 2013
Accrued liabilities in CA$ (converted to US$)	$	**79,383**	$	90,373
Accrued liabilities		**561,318**		420,397
Total accrued liabilities	$	**640,701**	$	510,770

As at June 30, 2014, the Company has accrued an amount of $250,000 (June 30, 2013 - $nil) as an estimate of costs to defend against a group that claims to own an interest in certain of the producing wells in Wood County. The Company and its legal counsel feel as though the claim is without merit, and the Company intends on disputing this claim and rectifying the issue.

NOTE 11 – SUBORDINATE NOTES PAYABLE

		June 30, 2014		June 30, 2013
Texas Reef note payable – current	$	**408,334**	$	-
Primatlantis bridge loan		**259,588**		-
Iroquois Capital Opportunity Fund		**33,333**		150,000
	$	**701,255**	$	150,000

The Texas Reef note was a no-interest note issued to the seller of a minority interest in the prospect, secured by the same minority interest in the property. The Primatlantis bridge loan had an 18% interest rate and was secured by a first-rank security interest in the Marcellus property and the Thunder Note Receivable (Note 6), which was itself secured by the 50% working interest in the

Thunder property not owned by the Company. The Iroquois Capital Opportunity Fund note was a no-interest note with a subordinate security interest in the Texas Reef properties. All three notes payable were fully repaid by the Company on August 28, 2014, following the conclusion of the sale of a majority stake in the Texas Reef Property (see Note 29).

NOTE 12 – HEDGES (OIL SWAPS)

		June 30, 2014		June 30, 2013
Fair value – beginning of year	**$**	**306,231**	$	1,243,717
Unrealized (loss) gain on fair value of hedges (swaps and put options)		**(488,749)**		(930,620)
Realized loss from expiration of swaps contracts		**(103,356)**		(6,866)
Fair value – end of year	**$**	**(285,874)**	$	306,231
Current portion	**$**	**(193,448)**	$	306,231
Non-current portion	**$**	**(92,426)**	$	-

The Company hedges its exposure to commodity price risk using swap contracts. During the year, the Company paid a net $103,356 (2013 - received $452,185) for its swaps, effectively decreasing the average sales price it obtains for its oil production.

As at June 30, 2014, the Company had swaps in place for 2,000 barrels per month from July 2014 through December 2015, at prices of $98.25/bbl for all swaps expiring 2014 and $87.32/bbl for all swaps expiring in 2015. On September 2, 2014, the Company unwound some of its swaps, so that it now has swaps for 1,250 barrels per month for the remainder of 2014, and 1,150 per month for each month in 2015, all at the same swap prices as above.

The intent of these instruments is not to speculate on future commodity prices, but rather to protect the downside risk to the Company's cash flow. The Company recognizes the fair value of its hedges on the statement of financial position of each reporting period with the change in fair value recognized as a gain or a loss on the statement of operations and comprehensive loss. The fair value is based on quoted market prices. As at June 30, 2014, the fair value is estimated to be $(285,874) (June 30, 2013: $306,231).

NOTE 13 – EMBEDDED DERIVATIVE LIABILITIES

Since the functional currency of the Company is the U.S. dollar and certain warrants issued by the Company had a strike price in Canadian dollars and therefore fall under the scope of IAS 32, in accordance with IFRS these warrants were recognized as embedded derivative liabilities and were being measured at fair value, with changes in fair value recorded at each reporting date in the consolidated statement of operations and comprehensive loss.

The following table summarizes the warrants issued and outstanding from July 1, 2012 to June 30, 2014:

	Date	Number of warrants		Average exercise price	Expiry date
Balance as at July 1, 2012		**29,862,842**	**$**	**0.34**	
Warrants issued for property and equipment	Oct. 16, 2012	250,000		0.30	April 11, 2014
Warrants expired/forfeited		(6,966,342)		0.50	
Balance as at June 30, 2013		**23,146,500**	**$**	**0.29**	
Warrants expired/forfeited		(23,146,500)		0.29	
Balance as at June 30, 2014		**-**	**$**	**-**	

(In U.S. dollars)

NOTE 13 – EMBEDDED DERIVATIVE LIABILITIES (CONTINUED)

The embedded derivative liabilities (warrants) were measured using the Black-Scholes option pricing model using the following average assumptions:

		June 30, 2013
Average strike price	$	0.2883
Average expected life (in years)		0.75
Expected volatility		100%
Dividend yield		Nil
Risk-free interest rate		1.14%
Average fair value	$	0.0439
Embedded derivative liabilities	$	1,005,663

NOTE 14– BANK FACILITY

	June 30, 2014	June 30, 2013
Funds drawn from $4,750,000 bank facility	**$ 4,750,000**	$ 5,500,000

As at June 30, 2014, the bank loan facility with Green Bank, N.A. (Houston, TX), was drawn to $4,750,000. As of the date hereof, the facility has a borrowing base of $1,750,000, following a pay down of the loan of $3,000,000 on August 27, 2014, after the sale by the Company of a majority stake in the Catfish Creek properties (see Note 29).

Under the terms of the bank facility, it has a maturity date of July 1, 2016, and requires interest-only payments based on an interest rate of 5% per annum, with no required principal payments until after January 1, 2015, when an engineering review will determine if any monthly principal reductions are required.

The facility contains various additional covenants that restrict the Company from issuing additional debt or disposing of assets, require it to maintain hedges for the sale of approximately 75% of the production forecast by the bank's engineer from its proved developed producing reserves for 18 months, and require it to maintain the following financial ratios:

- A current ratio of 1.0 to 1.0 defined as short-term assets divided by short-term liabilities (including in short-term assets any availability under the facility and excluding from short-term liabilities not payable in cash);
- A debt-to-worth ratio of no more than 2.0 to 1.0, defined as total liabilities divided by total assets (excluding from assets all intangible assets);
- An interest coverage ratio of 3.50 to 1.0 defined as interest expense divided by EBITDAX (which is EBITDA plus any exploration costs, unusual items or non-cash items deducted in determining net income).
- A debt service coverage ratio of 1.25 to 1.0 defined as interest expense plus monthly committed reduction divided by EBITDA, this covenant being applicable when there are monthly commitment reductions (i.e. principal reductions).

As of the date hereof, the Company was in compliance with all covenants under the facility. As at and for the quarter ended June 30, 2014, the Company was not in compliance with the requirements of the current and interest coverage ratios, however, these compliance violations have been waived by Green Bank.

(In U.S. dollars)

NOTE 15– DECOMMISSIONING LIABILITIES

		Total
Balance as at July 1, 2012	**$**	**2,673,751**
Change in liability estimate		97,865
Additions		78,264
Disposals		(1,986,640)
Accretion expense		-
Balance as at June30, 2013	**$**	**863,240**
Change in liability estimate		(118,250)
Additions		-
Disposals		(438,600)
Accretion expense		-
Balance as at June 30, 2014	**$**	**306,390**

The above table provides a reconciliation of the carrying amount of the obligations associated with the decommissioning of oil and gas properties. New or disposed of liabilities recorded during the period are the estimated discounted costs of plugging and abandonment of wells or facilities that were assumed or released by the Company when it purchased or sold properties throughout the year.

The total estimated discounted cash required to settle the obligations is $306,390 as at June 30, 2014 (June 30, 2013: $863,240). The key assumptions used by the Company in estimating the present value of its decommissioning liabilities include an annual inflation rate of 2.00% (June 30, 2013: 2.00%) and a 2.00% risk-free discount rate (June 30, 2013: 2.00%).

During the last quarter of the current fiscal year, the Company undertook an in-depth study of its decommissioning obligations. The study found that there would be significantly greater salvage values to be realized upon the eventual abandonment of the properties, resulting in a reduction of the estimated decommissioning liabilities. The decommissioning of assets will be funded from the general corporate resources at the time of each property's retirement over the next 3 to 25 years.

(In U.S. dollars)

NOTE 16–CAPITAL STOCK

Common Shares

Authorized Shares

The Company is authorized to issue an unlimited number of common shares, without par value, and an unlimited number of preferred shares in series.

Issued Common Shares

		Date	Number of shares	Amount ($)
Balance as at July 1, 2012			62,401,342	20,289,515
Shares issued upon conversion of Series II preferred shares	(a)	August 28, 2012	1,000,000	220,000
Shares issued on acquisition of property and equipment	(b)	October 12, 2012	250,000	6,582
Shares issued upon conversion of Series II preferred shares	(a)	October 16, 2012	1,000,000	220,000
Shares issued upon conversion of Series III preferred shares	(a)	June 25, 2013	413,176	103,294
Shares issued upon conversion of Series III preferred shares	(a)	June 25, 2013	240,450	60,113
Balance as at June 30, 2013			**65,304,968**	**20,899,504**
Shares issued on acquisition of property and equipment	(c)	August 20, 2013	885,000	141,600
Shares issued for services	(d)	August 20, 2013	75,000	15,000
Shares issued for debt	(e)	Various	633,333	64,186
Shares issued upon conversion of Series I preferred shares	(f)	October 7, 2013	3,058,354	820,664
Shares issued upon conversion of Series II preferred shares	(g)	October 7, 2013	3,686,364	783,352
Shares issued upon conversion of Series III preferred shares	(h)	Various	5,400,646	1,227,443
Balance as at June 30, 2014			**79,043,665**	**23,951,749**

a) During the year ended June 30, 2013, 2,653,626 common shares were issued upon the conversion of 2,000,000 Series II preferred shares and 653,626 Series III preferred shares.
b) On October 12, 2012, 250,000 units were issued to acquire 2D and 3D seismic data pertaining to the Texas Reef property. Each unit was comprised of one common share and one warrant. In connection with this transaction, the Company incurred share issuance costs of $54,084.
c) On August 20, 2013, 885,000 common shares were issued to acquire additional interests in the Texas Reef property.
d) On August 20, 2013, 75,000 common shares were issued for professional services.
e) On January 24, 2014, 333,333 common shares were issued for debt incurred in shareholder dispute and on January 30, 2014, 300,000 common shares were issued in payment of debt incurred for property acquisition.
f) On October 7, 2013, 3,058,354 common shares were issued upon conversion of Series I preferred shares.
g) On October 7, 2013, 3,686,364 common shares were issued upon conversion of Series II preferred shares.
h) During the year, 5,400,646 common shares were issued upon the conversion of Series III preferred shares.

Preferred Shares

As at June 30, 2014, there were no longer any Series I preferred shares or Series II preferred shares issued and outstanding, as all were converted into common shares. The Series III preferred shares are non-voting, pay no dividend, and are convertible one-for-one into common shares at the election of the holder at any time or by the Company if the 20-day average trading price of the Company's common shares is over $0.30 provided there is average trading volume of over 200,000 shares per day, using the combined trading volumes on the TSX Venture Exchange and OTCQX market.

(In U.S. dollars)

NOTE 16 – CAPITAL STOCK (CONTINUED)

The following table describes the preferred shares issued and outstanding from July 1, 2012 through to June 30, 2014:

	Series I		Series II		Series III		Total	
	Number of Shares	Amount ($)	Number of Shares	Amount ($)	Number of Shares	Amount ($)	Number of Shares	Amount ($)
Balance as at July 1, 2012	**3,058,354**	**820,664**	**5,686,364**	**1,223,352**	**16,800,000**	**4,040,820**	**25,544,718**	**6,084,836**
Conversion of preferred shares	-	-	(2,000,000)	(440,000)	(653,626)	(163,406)	(2,653,626)	(603,406)
Balance as at June 30, 2013	**3,058,354**	**820,664**	**3,686,364**	**783,352**	**16,146,374**	**3,877,414**	**22,891,092**	**5,481,430**
Conversion of preferred shares	(3,058,354)	(820,664)	(3,686,364)	(783,352)	(5,400,646)	(1,227,443)	(12,145,364)	(2,831,459)
Balance as at June 30, 2014	**-**	**-**	**-**	**-**	**10,745,728**	**2,649,971**	**10,745,728**	**2,649,971**

Options

The following tables describe the options issued and outstanding and exercisable from July 1, 2012 through to June 30, 2014:

	Date	Number of options	Average exercise price	Expiry date
Balance as at July 1, 2012		**4,350,000**	**$ 0.33**	**Various**
Options granted to employees/directors	May 22, 2013	3,700,000	0.15	May 22, 2018
Options exercised		-	-	
Options expired/forfeited		(1,700,000)	0.31	Various
Balance as at June 30, 2013		**6,350,000**	**$ 0.21**	
Options granted to employees/directors		-	-	
Options exercised		-	-	
Options expired/forfeited		(2,650,000)	0.29	Various
Balance as at June 30, 2014		**3,700,000**	**$ 0.15**	**May 22, 2018**

As at June 30, 2014, a total of 2,466,667 stock options are exercisable (June 30, 2013 – 2,650,000).

In agreement with the Company's Stock Option Plan, options are generally issued for a period of five years from the date of grant with vesting in six equal installments exercisable three months following grant date and vesting every three months thereafter.

The Black-Scholes option valuation model was used by the Company to estimate the fair value of the options, using the assumptions summarized in the following table:

	Dividend Yield	Volatility	Risk-free interest rate	Expected life	Grant date fair value (per option)
Options granted – May 22, 2013	0%	100%	1.13%	1.5	$ 0.0571

Total share-based compensation for the year ended June 30, 2014 was $131,326 (June 30, 2013: $14,666).

(In U.S. dollars)

NOTE 16 – CAPITAL STOCK (CONTINUED)

Broker's Warrants, presented in equity

The following table summarizes information about broker warrants outstanding and exercisable from July 1, 2012 through to June 30, 2014:

	Date	Number of broker warrants	Average exercise price		Expiry date
Balance as at July 1, 2012		**2,728,516**	**$**	**0.23**	**Various**
Broker warrants exercised		-			
Broker warrants expired/forfeited		(2,293,326)			Various
Balance as at June 30, 2013		**435,190**	**$**	**0.25**	**April 11, 2014**
Broker warrants exercised		-		-	
Broker warrants expired/forfeited		(435,190)		-	April 11, 2014
Balance as at June 30, 2014		**-**	**$**	**-**	

NOTE 17– SHARES COMMITTED FOR ISSUANCE

As at June 30, 2014, the Company owed $99,505 in finder's fees, director fees and consulting fees, payable in common shares of the Company, of which 236,114 common shares with a value of $17,385 were issued on September 9, 2014, with the balance of the shares committed for issuance expected to be issued in November, 2014.

NOTE 18 – DISSIDENT SHAREHOLDER EXPENSES

Of a total $150,000 in third-party expenses payable in relation to the Company's dispute with Iroquois Capital Opportunity Fund, as of June 30, 2014, the Company had paid CA$116,666 (2013: $nil), consisting of CA$50,000 in Company stock and CA$66,666 in cash with CA$33,334 owing under the note payable at the end of the year. The balance owing under the note was fully paid on August 28, 2014.

NOTE 19 – FINANCIAL EXPENSES

	June 30, 2014		June 30, 2013	
Interest on senior bank facility	**$**	**278,455**	$	395,584
Interest on subordinate notes		**81,587**		23,853
Other fees and bank charges		**8,375**		53,751
	$	**368,417**	$	473,188

NOTE 20 – GENERAL AND ADMINISTRATIVE EXPENSES

The following table provides a breakdown of the general and administrative expenses included in the consolidated statements of operations and comprehensive loss:

	June 30, 2014		June 30, 2013	
Office	**$**	**62,289**	$	116,584
Salaries & fees		**704,626**		604,430
Outside audit, accounting & legal		**256,242**		174,562
Marketing & public company costs		**67,099**		65,115
Travel & entertainment		**52,272**		45,454
Insurance		**45,482**		48,358
	$	**1,188,010**	$	1,054,503

(In U.S. dollars)

NOTE 21 – OPERATING EXPENSES

The following table provides a breakdown of the operating expenses included in the consolidated statements of operations and comprehensive loss:

	June 30, 2014	June 30, 2013
Operating overhead	**$ 158,038**	$ 196,143
Lifting expenses	**1,066,305**	1,944,064
Repairs & maintenance	**318,761**	535,926
Ad valorem taxes	**108,064**	245,385
Insurance	**19,263**	12,742
	$ 1,670,431	$ 2,934,260

NOTE 22– INCOME TAXES AND DEFERRED INCOME TAX EXPENSE

Income taxes

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

	June 30, 2014	June 30, 2013
Net loss for the year	**$ (3,733,890)**	$ (756,587)
Expected income tax (recovery)	**$ (989,000)**	$ (200,000)
Change in statutory, foreign tax, foreign exchange rates and other	**(447,000)**	(506,000)
Permanent differences	**(113,000)**	-
Impact of hedges	**-**	246,000
Share issue cost	**(3,000)**	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	**-**	(668,000)
Change in unrecognized deductible temporary differences	**1,552,000**	1,128,000
Total income tax expense (recovery)	**$ -**	$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	June 30, 2014	June 30, 2013
Deferred tax assets (liabilities)		
Oil and gas investments	**$ (2,015,000)**	$ (3,516,000)
Marketable securities	**-**	(207,000)
Non-capital losses	**2,015,000**	3,723,000
Net deferred tax assets	**$ -**	**$ -**

(In U.S. dollars)

NOTE 22 – INCOME TAXES AND DEFERRED INCOME TAX EXPENSE (CONTINUED)

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	June 30, 2014	June 30, 2013
Deferred tax assets (liabilities)		
Oil and gas investments	$ 571,000	$ 399,000
Property and equipment	1,014,000	1,056,000
Share issue costs	112,000	164,000
Asset retirement obligation	18,000	301,000
Allowable capital losses	14,000	-
Non-capital losses available for future periods	5,526,000	3,869,000
	7,255,000	5,789,000
Unrecognized deferred tax assets	(7,255,000)	(5,789,000)
Net deferred tax assets	$ -	$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	June 30, 2014	Expiry Date Range	June 30, 2013	Expiry Date Range
Temporary Differences:				
Oil and gas investments	$ 1,341,000	No expiry date	$ -	-
Property and equipment	$ 2,982,000	No expiry date	$ 3,017,000	No expiry date
Share issue costs	$ 424,000	2035 to 2038	$ 631,000	2034 to 2037
Asset retirement obligation	$ 53,000	No expiry date	$ 860,000	No expiry date
Allowable capital losses	$ 52,000	No expiry date	$ -	-
Non-capital losses available for future periods	$ 19,202,000	2015 to 2034	$ 14,047,000	2015 to 2033

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

(In U.S. dollars)

NOTE 23 –EARNINGS (LOSS) PER SHARE

The following table reconciles the numerators and denominators of the basic and diluted earnings (loss) per share:

	June 30, 2014	June 30, 2013
Net loss	$ **(3,733,890)**	$ (756,587)
Shares outstanding at end of year	**79,043,665**	65,304,968
Weighted average number of shares outstanding – basic	**74,113,344**	64,120,419
Dilutive effect of preferred shares	**15,196,012**	24,703,757
Dilutive effect of warrants	**-**	-
Dilutive effect of options	**-**	-
Weighted average number of shares outstanding – diluted	**89,309,356**	88,824,176
Loss per share – basic	$ **(0.0504)**	$ (0.0118)
Loss per share – diluted	$ **(0.0418)**	$ (0.0085)

The weighted average number for basic common shares for the years presented is in the previous table. Other than basic common shares and convertible preferred shares, all equity instruments have been excluded in calculating the diluted loss per share as they were anti-dilutive, considering the Company was in a loss position for the years presented.

NOTE 24– ADDITIONAL CASH FLOW INFORMATION

	June 30, 2014	June 30, 2013
Receivables	$ **477,961**	$ 240,260
Inventory	**-**	(18,345)
Prepaid	**(37,800)**	2,351
Payables	**(571,581)**	(374,036)
Accrued liabilities	**(186,300)**	212,154
Changes in non-cash working capital items	$ **(317,720)**	$ 62,384

During the year the Company made the following cash outlays for interest expense:

	June 30, 2014	June 30, 2013
Interest expense on senior bank facility	$ **278,455**	$ 395,584
Other interest	**28,080**	-
Interest expense on subordinate notes	**61,009**	23,853
Interest expense	$ **367,544**	$ 419,437

NOTE 25– FINANCIAL INSTRUMENTS

There has been no change from last year in assessed risk or risk management approaches by the Company.

Market Risk

The Company is exposed to risk from changes in market conditions resulting in fluctuations of crude oil and natural gas prices, foreign exchange rates and interest rates, all which could affect the Company's net income or the value of its financial instruments.

(In U.S. dollars)

NOTE 25– FINANCIAL INSTRUMENTS (CONTINUED)

(i) Commodity Price Risk

The Company is exposed to risk from fluctuations in prevailing market commodity prices on the mix of oil and gas it produces. The Company's policy is to manage these risks through the use of either put options (which limit the Company's exposure to fluctuations in commodity prices) or swap contracts (which put a floor under the selling price of some of the Company's production) on 50% to 75% of the Company's proved developed producing production (by quantity) for a minimum 18 months at any given time, assuming no production increases. These criteria ensure that the Company maintains the minimum hedging requirement under the terms of its bank facility (see Note 14).

The tables below summarize the impact on profit before tax for changes in commodity prices. In particular, the Company is exposed to fluctuations in crude oil prices based on NYMEX Crude and natural gas prices based on NYMEX gas, therefore the analysis is based on the assumption that these crude oil and natural gas prices fluctuated by as much as 10% upwards or downwards from the price obtained during the years.

The following table shows the effect on profit before tax from an increase or decrease in the price of crude oil, with all other variables held constant:

	June 30, 2014	June 30, 2013
Increase $10.00/bbl	$ 32,000	$ 173,000
Decrease $10.00/bbl	$ (32,000)	$ (173,000)

The following table shows the effect on profit before tax from an increase or decrease in the price of natural gas, with all other variables held constant:

	June 30, 2014	June 30, 2013
Increase $1.00/Mcf	$ 71,000	$ 91,000
Decrease $1.00/Mcf	$ (71,000)	$ (91,000)

(ii) Foreign Exchange Risk

Nearly all of the Company's operations are in its subsidiaries that carry out business in the U.S., which have U.S. dollars as their functional currency. As a result, the Company is not exposed to significant fluctuations resulting from changes in foreign exchange rates.

The following table shows the effect on profit before tax from an increase or decrease in the CA$/US$ exchange rate, with all other variables held constant:

	June 30, 2014	June 30, 2013
+7%	$ (42,000)	$ (141,000)
-7%	$ 42,000	$ 141,000

(In U.S. dollars)

NOTE 25– FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Interest Rate Risk

The Company had a secured bank loan drawn to $4,750,000 at the end of the year, which bears interest equal to Green Bank's prime rate plus 2%, but no less than 5% per annum. Therefore, the interest rate has been and is currently 5% per annum.

The following table shows the effect on profit before tax from an increase in the interest rate payable on the Company's bank debt, all other variables being held constant:

	June 30, 2014	June 30, 2013
+2.0%	$ 84,000	$ 158,000

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages this risk by monitoring its cash flows to ensure that it has enough on hand to meet its maturing liabilities. The following are the contractual maturities of the Company's financial liabilities as at June 30, 2014 and June 30, 2013:

June 30, 2014	Amount payable	Less than 1 year	1 to 3 years
Payables	$ 762,704	$ 762,704	$ -
Accrued liabilities	640,701	640,701	-
Subordinate notes payable	701,255	642,922	58,333
Bank facility	4,750,000	-	4,750,000
	$ 6,854,660	**$ 2,046,327**	**$ 4,808,333**

June 30, 2013	Amount payable	Less than 1 year	1 to 3 years
Payables	$ 1,179,139	$ 1,179,139	$ -
Accrued liabilities	510,770	510,770	-
Subordinate notes payable	150,000	150,000	
Bank facility	5,500,000	-	5,500,000
	$ 7,339,909	**$ 1,839,909**	**$ 5,500,000**

Credit Risk

Credit risk is the potential exposure of the Company to losses that would be recognized if its counterparties fail to pay amounts due to the Company. The Company is exposed to credit risk from the Company's oil and gas sales receivables and from its hedging counterpart. The Company mitigates credit risk through marketing relationships with large, healthy, reputable companies.

The maximum exposure of the Company as at June 30, 2014 is the total value of its receivables of $648,649 (June 30, 2013: $1,126,700), from which $202,770 (June 30, 2013: $204,543) is the largest owing from Lion Oil Trading and Transportation, which is the largest of the regular purchasers of the Company's oil. At June 30, 2013, the largest purchaser of the Company's oil was Sunoco.

Amounts owing from working interest owners on properties where the Company is the operator are past due, but the Company is continuing to collect these amounts from those interest owners' share of net profits earned on the properties in question.

(In U.S. dollars)

NOTE 25– FINANCIAL INSTRUMENTS (CONTINUED)

Management expects to continue collection of all these debts and therefore there are no amounts considered to be past due or impaired as at June 30, 2014.

The fair value of the financial assets classified as loans and receivables and all financial liabilities classified as other financial liabilities have a carrying value which approximates fair value due to their short-term nature.

NOTE 26 – CAPITAL DISCLOSURES

The Company is required to meet the covenants of its bank loan facility, as described in Note 14. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or refund capital to its shareholders. The Company considers the items included in shareholders' equity as capital. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

There has been no change in the Company's approach to managing capital during the year ended June 30, 2014.

NOTE 27 – KEY MANAGEMENT COMPENSATION

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation for the years ended June 30 are as follows:

	June 30, 2014	June 30, 2013
Short-term employee benefits and director fees	$ 557,888	$ 485,416
Share-based compensation	131,326	14,666
	$ 689,214	$ 500,082

As at June 30, 2014, a total of $246,482 (2013 - $nil) is owing to key management of the company and is included in payables and accrued liabilities. There were no additional related party transactions or balances in any of the periods presented.

NOTE 28 – SEGMENTED INFORMATION

Substantially all of the Company's revenues and assets are generated from one single industry segment (oil and gas exploitation) located in the United States.

NOTE 29 – SUBSEQUENT EVENTS

On August 18, 2014 the Company entered into an agreement to sell its 50% working interest in the Thunder Properties (South Texas CGU), to the other owner of the properties for $550,000 and the reduction of the debts owed to the Company by the buyer (see Note 6). The transaction is now expected to close in November, 2014.

On August 27, 2014 the Company sold an 81% working interest in the Texas Reef properties as well as its 90% interest in the Otter Creek Pipeline, LLC, in Henderson and Anderson Counties, for an aggregate sales price of $5,850,000. The Company retained an average 12% working interest plus a 3% overriding royalty in the existing wells and an average 9% working interest plus a 5% overriding royalty interest throughout another 3,500 undeveloped net acres. With the proceeds of this sale, the Company repaid its subordinate loans and repaid $3,000,000 of its senior bank facility. Of the purchase price, $500,000 was held in escrow pending validation of title and environmental. As of the date hereof, the Purchaser has made a title defect and indemnification claim for $141,000, which the Company intends to dispute, and which may result in the Company receiving only $359,000 of the $500,000 escrowed funds.

NOTE 29 – SUBSEQUENT EVENTS (CONTINUED)

As at October 27, 2014, an additional 86,924 Series III preferred shares had been converted to common shares since June 30, 2014.