



TAIPAN RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2014

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, 2014 and 2013, 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, 2014 and 2013, 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 Accountants

February 25, 2015

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

As at	October 31, 2014	October 31, 2013
ASSETS		
Current		
Cash	\$ 1,504,078	\$ 271,931
Deposits and prepaid expenses	221,537	104,735
Receivables (Note 4)	3,803,865	10,858
Marketable securities (Note 5)	133,735	-
	<u>5,663,215</u>	<u>387,524</u>
Equipment (Note 6)	51,945	-
Exploration and evaluation assets (Notes 7)	<u>12,203,101</u>	<u>15,912,061</u>
	<u>\$ 17,918,261</u>	<u>\$ 16,299,585</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ <u>3,268,290</u>	\$ <u>6,705,158</u>
Shareholders' equity		
Share capital (Note 9)	34,212,536	26,188,849
Subscriptions receivable (Note 9)	(604,500)	-
Reserves (Note 9)	2,541,020	2,231,189
Accumulated other comprehensive loss	1,346,781	-
Deficit	<u>(22,845,866)</u>	<u>(18,825,611)</u>
	<u>14,649,971</u>	<u>9,594,427</u>
	<u>\$ 17,918,261</u>	<u>\$ 16,299,585</u>
Nature of operations and going concern (Note 1)		
Commitments and contingencies (Note 12)		
Subsequent events (Note 17)		

Approved and authorized by the Board on February 25, 2015:

"Maxwell Birley" Director "Joel Dumaresq" 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	2014	2013
EXPENSES		
Accounting and legal	\$ 398,781	\$ 248,420
Exploration (recovery) expenditures	(94,197)	12,728,099
Filing and regulatory	131,244	48,766
Foreign exchange loss	133,888	36,291
Management and consulting	790,489	338,867
Office, rent and administrative	549,986	181,781
Promotion	635,714	270,081
Share-based payments (Note 9)	947,470	1,687,192
Travel	386,943	196,112
	(3,880,318)	(15,735,609)
OTHER		
Unrealized loss on marketable securities (Note 5)	(164,384)	-
Receivable allowance (Note 12)	(31,106)	(71,898)
Write-off of accounts payable and accrued liabilities	55,553	-
Loss for the year	\$ (4,020,255)	\$ (15,807,507)
Loss for the year	\$ (4,020,255)	\$ (15,807,507)
Other comprehensive loss:		
Change in cumulative translation adjustment	1,346,781	-
Comprehensive loss for the year	\$ (2,673,474)	\$ (15,807,507)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.19)
Weighted average number of common shares outstanding	96,899,235	81,972,913

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	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (4,020,255)	\$ (15,807,507)
Non-cash items:		
Depreciation	8,877	-
Unrealized loss on marketable securities	164,384	-
Share-based payments	1,109,564	1,687,192
Receivable allowance	31,106	71,898
Write-off of accounts payable and accrued liabilities	(55,553)	-
Changes in non-cash working capital items:		
Receivables	(3,824,113)	(45,243)
Deposits and prepaid expenses	(116,802)	(51,987)
Accounts payable and accrued liabilities	(3,381,315)	5,137,724
	<u>(10,084,107)</u>	<u>(9,007,923)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	-	3,250,000
Purchase of equipment	(60,822)	-
Cash from farm out partner	4,878,720	-
	<u>4,817,898</u>	<u>3,250,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	6,299,934	3,412,359
Share issuance costs	(167,980)	(144,804)
Exercise of stock options	487,500	-
Exercise of warrants	-	72,000
	<u>6,619,454</u>	<u>3,339,555</u>
Change in cash during the year	1,353,245	(2,418,368)
Effect of foreign exchange on cash	(121,098)	-
Cash, beginning of year	271,931	2,690,299
Cash, end of year	\$ 1,504,078	\$ 271,931
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)

	<u>Share capital</u>							
	Number	Amount	Subscription Receivable	Accumulated Other Comprehensive Loss	Reserves	Deficit	Total	
Balance, October 31, 2012	74,789,667	\$ 23,009,842	\$ -	\$ -	\$ 383,449	\$ (3,018,104)	\$ 20,375,187	
Private placements	9,749,596	3,412,359	-	-	-	-	3,412,359	
Share issuance costs – cash	-	(144,804)	-	-	-	-	(144,804)	
Share issuance costs – shares	160,100	56,035	-	-	-	-	56,035	
Share issuance costs – shares	-	(56,035)	-	-	-	-	(56,035)	
Share issuance costs – warrants	-	(160,548)	-	-	160,548	-	-	
Exercise of warrants	600,000	72,000	-	-	-	-	72,000	
Share-based payments	-	-	-	-	1,687,192	-	1,687,192	
Loss for the year	-	-	-	-	-	(15,807,507)	(15,807,507)	
Balance, October 31, 2013	85,299,363	26,188,849	-	-	2,231,189	(18,825,611)	9,594,427	
Private placements	17,824,812	6,416,934	(117,000)	-	-	-	6,299,934	
Share issuance costs – cash	-	(167,980)	-	-	-	-	(167,980)	
Share issuance costs – shares	413,444	186,440	-	-	-	-	186,440	
Share issuance costs – shares	-	(186,440)	-	-	-	-	(186,440)	
Share issuance costs – warrants	-	(37,061)	-	-	37,061	-	-	
Exercise of options	3,000,000	1,649,700	(487,500)	-	(674,700)	-	487,500	
Shares issued as bonus (Note 12)	448,698	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	106,986,317	\$ 34,212,536	\$ (604,500)	\$ 1,346,781	\$ 2,541,020	\$ (22,845,866)	\$ 14,649,971	

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

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2014

(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 and evaluating economically viable oil and gas resource deposits in East Africa.

The Company's head office and principal address is 2630 – 1075 West Georgia Street, Vancouver, BC, V6E 3C9. The Company's operational office (Lion Petroleum Corp.) is 1st Floor, Empress Plaza, Corner of Ring Road and Jalaram Road, Westlands, Nairobi, Kenya.

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 favourable 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.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2014

(Expressed in Canadian Dollars)

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.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2014

(Expressed in Canadian Dollars)

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.

TAIPAN RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

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, 2014

(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 is 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, 2014, 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, 2014

(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, interpretations and amendments adopted

The Company applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 13 *Fair Value Measurement*. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in fiscal 2014. However, they are not applicable to the annual audited consolidated financial statements of the Company or the consolidated financial statements of the Company.

The nature and the impact of each new standard are described below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Company.

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

October 31, 2014

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**New standards, interpretations and amendments adopted (cont'd...)***IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Company does not have any partnerships in JCEs, the adoption of this standard had no impact on the consolidated financial statements of the Company.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. The Company has not had any changes in its corporate structure or investments during the period; accordingly, the Company has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Company provides these disclosures in Note 14.

New standards not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended October 31, 2014:

- IFRS 9 New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets, deferred indefinitely
- IAS 32 (Amendment) New standard amends IAS 32 to provide clarifications on the application of the offsetting rules, effectively for annual periods beginning on or after January 1, 2014.

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

4. RECEIVABLES

Receivables are as follows:

	2014	2013
Trade receivables	\$ 29,632	\$ 10,858
Cash call receivable	<u>3,774,233</u>	<u>-</u>
Total	\$ 3,803,865	\$ 10,858

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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 \$133,735 as at October 31, 2014 resulting in an unrealized loss of \$164,384.

6. EQUIPMENT

	Furniture and Office Equipment	Motor Vehicles	Total
Cost			
Balance, October 31, 2012 and 2013	\$ -	\$ -	\$ -
Additions for the year	4,918	55,904	60,822
Balance, October 31, 2014	\$ 4,918	\$ 55,904	\$ 60,822
Accumulated depreciation			
Balance, October 31, 2012 and 2013	\$ -	\$ -	\$ -
Additions for the year	492	8,385	8,877
Balance, October 31, 2014	\$ 492	\$ 8,385	\$ 8,877
Net book value			
As at October 31, 2013	\$ -	\$ -	\$ -
As at October 31, 2014	\$ 4,426	\$ 47,519	\$ 51,945

Depreciation expense for the year ended October 31, 2014 of \$8,877 (2013 - \$Nil) has been included in exploration and evaluation expenditures.

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 kilometres 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.

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7. EXPLORATION AND EVALUATION ASSETS (cont'd...)**Block 1 Property, Kenya (cont'd...)**

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, restoring the Company's rights and entitlements to a 20% interest in Block 1. Subsequent to October 31, 2014 the Company commenced an arbitration action against EAX (Note 17).

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).

The Company has notified the government of Kenya that the Company has entered 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 would include 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, a second additional exploration period of two contract years will also be available to the Company with an estimated expenditure obligation of US\$19,000,000 including further seismic and two exploration wells to 3,000 metres each.

The Company has notified the government of Kenya of its intention to relinquish 30% of the original area of Block 2B less any area under development per the PSC and are in discussions with the government of Kenya concerned the particulars of their arrangement. Before the end of the first additional exploration period, an additional 30% of the remaining area of Block 2B will be required to be surrendered to the government of Kenya. 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:

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

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 in to a farm-out agreement with Premier Oil Investments Ltd. ("Premier") a subsidiary of Premier Oil PLC whereby Premier has acquired a 55% participating interest in Block 2B. Under the terms of the farm-out, Premier will carry the Company through the cost of work for the first additional exploration period. Premier will also provide 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, 2014 the Company cash called and received US\$6,543,793 (2013 - \$Nil) 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. Consideration received of \$5,176,839 was shown as a recovery against exploration and evaluation assets on the statement of financial position.

	2014	2013
Opening exploration and evaluation asset balance	\$ 15,912,061	\$ 15,912,061
Consideration received from farm-out agreements	(5,176,839)	-
Effect of foreign exchange	1,467,879	-
Ending exploration and evaluation asset balance	\$ 12,203,101	\$ 15,912,061

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	2014	2013
Trade payables	\$ 1,587,478	\$ 2,211,466
VAT and withholding tax payable	1,680,812	1,473,508
Cash call payable	-	3,020,184
Total	\$ 3,268,290	\$ 6,705,158

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd...)

The Company is currently assessing the liability in collaboration with its Kenyan tax advisors in light of 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.

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, 2014:

- a) The Company completed a non-brokered private placement issuing 17,824,812 units at a price of \$0.36 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 \$0.50 until April 4, 2018. In connection with the offering, the Company paid certain finders a cash commission and other costs totaling \$167,980, issued 413,444 units valued at \$186,440, and issued to the finders 127,734 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%. As of October 31, 2014, \$117,000 in subscriptions is still receivable related to this private placement.
- b) The Company issued 448,698 common shares with a value of \$162,094 to the CEO (Note 10) as part of their annual compensation.
- c) The Company issued 3,000,000 common shares due to the exercise of stock options. The \$487,500 receivable at October 31, 2014 related to the exercise of these options has been subsequently received.

During the year ended October 31, 2013:

- d) 600,000 warrants were exercised at a price of \$0.12 per warrant for gross proceeds of \$72,000.
 - e) the Company completed a non-brokered private placement issuing 9,749,596 units at a price of \$0.35 per unit for gross proceeds of \$3,412,359. 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 \$0.50 until February 13, 2018. In connection with the offering, the Company paid certain finders a cash commission and other costs totaling \$144,804, issued 160,100 common shares valued at \$56,035, and issued to the finders 612,750 common share purchase warrants exercisable with the same terms as the warrants attached to the units. A fair value of \$160,548 was attributed to these warrants using the Black-Scholes pricing model with an expected life of 5 years, volatility of 100%, dividend rate of 0%, and discount rate of 1.50%.
 - c) Escrow agreements
- As at October 31, 2014, 1,931,646 common shares of the Company were subject to escrow as per two separate escrow agreements.
- 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.

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

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

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, 2012	500,000	\$ 0.50	43,523,540	\$ 0.38
Granted	7,600,000	0.33	10,362,346	0.50
Exercised	-	-	(600,000)	0.12
Balance, October 31, 2013	8,100,000	0.34	53,285,886	0.41
Granted	3,400,000	0.36	18,600,990	0.50
Exercised	(3,000,000)	0.33	-	-
Cancelled	(50,000)	0.33	-	-
Balance, October 31, 2014 exercisable	8,450,000	\$ 0.35	71,886,876	\$ 0.43

As at October 31, 2014, incentive stock options were outstanding as follows:

	Number	Exercise price	Expiry date
Stock Options	250,000	\$ 0.50	January 10, 2015*
	2,500,000	0.325	January 21, 2017
	1,800,000	0.325	July 17, 2017
	500,000	0.50	September 27, 2017
	1,250,000	0.36	April 14, 2019
	2,150,000	0.36	October 8, 2019
	8,450,000		

* Expired subsequent to year-end.

As at October 31, 2014, share purchase warrants were outstanding as follows:

	Number	Exercise price	Expiry date
Share Purchase Warrants	19,400,000	\$ 0.12	March 23, 2015
	23,523,540	0.60	July 16, 2017
	10,362,346	0.50	February 13, 2018
	17,029,878	0.50	April 4, 2018
	1,336,112	0.50	April 8, 2018
	235,000	0.50	April 8, 2018
	71,886,876		

During the year ended October 31, 2014 the Company granted 3,400,000 (2013 – 7,600,000) stock options to officers, consultants and directors. The weighted-average fair value of options granted and vested during the year was \$0.34 per option (2013 - \$0.23). Total share-based payments recognized in the statement of loss and comprehensive loss for the year ended October 31, 2014 was \$1,057,796 (2013 – \$1,687,192) for incentive options granted and vested. This amount was also recorded as reserves on the statement of financial position.

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

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

	2014	2013
Risk-free interest rate	1.43%	1.51%
Expected life	5.00 years	3.89 years
Volatility	115%	100%
Forfeiture rate	0%	0%
Dividend rate	-	-

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 \$1,003,832 (2013 - \$1,021,092) to the CEO, CFO and a non-executive director.
- Paid or accrued office, rent, and administration fees of \$72,000 (2013 - \$Nil) to a company controlled by the CFO and director of the Company.
- Issued 2,500,000 (2013 - 7,050,000) stock options with a fair value of \$705,238 (2013 - \$1,514,766).

The amount of \$284,652 (2013 - \$292,213) is due to related parties. All balances are unsecured, non-interest bearing, have no fixed repayment terms, and are due on demand.

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	2014	2013
Canada	\$ 3,138,672	\$ 2,755,565
Kenya	<u>881,583</u>	<u>11,757,391</u>
	<u>\$ 4,020,255</u>	<u>\$ 14,512,956</u>
Long-term assets as at	October 31, 2014	October 31, 2013
Canada	\$ -	\$ -
Kenya	<u>12,255,046</u>	<u>15,912,061</u>
	<u>\$ 12,255,046</u>	<u>\$ 15,912,061</u>

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12. COMMITMENTS AND CONTINGENCIES

- a) The Company signed a consulting agreement with the CEO of the Company whereby over the 12 months ended July 2013 (renewed automatically unless terminated by either party), subject to regulatory approval, the Company:
 - a. Will pay to the CEO annual fees of US\$380,000 paid monthly;
 - b. Provide an annual bonus of US\$100,000, payable 50% in cash and 50% in common shares of the Company; and
 - c. On a semi-annual basis, provide the CEO with common shares with a value equal to US\$100,000.
- b) 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

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

- a) Granted 127,734 finder fee warrants valued at \$37,061;
- b) Issued 413,444 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.

During the year ended October 31, 2013, the Company:

- d) Granted 612,750 finder fee warrants valued at \$160,548; and
- e) Issued 160,100 finders shares valued at \$56,035.

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:

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

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, 2014, the Company had a cash balance of \$1,504,078 to settle current liabilities of \$3,268,290. 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 cash equivalents and short-term investments. 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 GST receivable from the Government of Canada and cash calls from farm out partners. The Company has been successful in recovering cash calls (received subsequent to year-end) and input tax credits and believes credit risk with respect to receivables to be insignificant.

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, 2014, the Company did not have any investments in investment-grade short-term deposit certificates.

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.

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

16. INCOME TAXES

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

	2014	2013
Loss for the year before income tax	\$ (4,020,255)	\$ (15,807,507)
Expected income tax (recovery)	\$ (1,046,000)	\$ (4,044,000)
Changes in statutory, foreign tax, foreign exchange rates and other	(104,000)	(85,000)
Permanent differences	307,000	448,000
Impact of acquisition of Lion Petroleum Corp.	-	-
Share issuance costs	(92,000)	(51,000)
Adjustment to prior year provision	717,000	62,000
Change in unrecognized deductible temporary differences	218,000	3,670,000
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:

	2014	2013	Expiry Dates
Share issuance costs	\$ 618,000	\$ 517,000	2032 – 2037
Non-capital losses	10,028,000	6,662,000	2026 – 2034
Canadian eligible capital (CEC)	1,000	1,000	No expiry date
Marketable Securities	164,000	-	No expiry date
Exploration and evaluation assets	13,390,000	5,090,000	No expiry date
Investment tax credits	6,000	6,000	2030

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

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17. SUBSEQUENT EVENTS

Subsequent to October 31, 2014, the Company:

- a) Received a formal notice from the High Court of Kenya of a temporary injunction at its Block 2B property that was later reversed as the court agreed to allow the Company to continue drilling Block 2B; and
- b) Commenced an arbitration action against EAX with respect to what management believes are certain breaches to the joint operation agreement with respect to Block 1. The Company is seeking not less than US\$10,000,000 as restitution for damages.