



(Formerly: Eagleford Energy Inc.)

**Interim Condensed Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2015  
(Unaudited)  
(Expressed in Canadian Dollars)**

**Notice of No Auditor Review of  
Interim Condensed Consolidated Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of Eagleford Energy Corp. (the "Company") have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.



**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

Unaudited

May 31, 2015

August 31, 2014

**Assets**

**Current assets**

Cash	\$	12,239	\$	103,215
Trade and other receivables		29,426		157,121
Marketable securities (Note 19)		252,624		-

**Total current assets**

294,289 260,336

**Non-current assets**

Restricted cash (Note 20)		31,163		-
Exploration and evaluation assets (Note 6)		847,051		5,036,592

**Total non-current assets**

878,214 5,036,592

**Total Assets**

\$ 1,172,503 \$ 5,296,928

**Liabilities and Shareholders' Equity (Deficiency)**

**Current liabilities**

Trade and other payables	\$	1,864,427	\$	1,483,775
Shareholders' loans (Note 9 and 10)		1,172,673		981,834
Loans payable (Note 9)		187,827		-
Secured convertible note (Note 10 and 11)		475,755		-
Derivative liabilities (Note 11)		5,040,566		1,094,392
Deferred revenue (Note 6)		-		177,804
Provisions (Note 7(a))		11,563		11,768

**Total current liabilities**

8,752,811 3,749,573

**Non-current liabilities**

Derivative liabilities (Note 11)		-		4,231,015
Provisions (Note 7(a))		86,868		35,775

**Total non-current liabilities**

86,868 4,266,790

**Total liabilities**

8,839,679 8,016,363

**Shareholders' equity (deficiency)**

Share capital (Note 8 (a))		9,072,181		9,072,181
Share purchase warrants (Note 8 (b))		801,079		1,970,968
Share purchase options (Note 8 (d))		272,553		170,972
Contributed surplus (Note 8 (e))		3,106,441		1,389,898
Foreign currency translation reserve		695,899		4,692
Accumulated deficit		(21,615,329)		(15,328,146)

**Total shareholders' equity (deficiency)**

(7,667,176) (2,719,435)

**Total Liabilities and Shareholders' Equity (Deficiency)**

\$ 1,172,503 \$ 5,296,928

Going Concern (Note 1)

Related Party Transactions and Balances (Note 9)

Commitments and Contingencies (Note 14)

Dissolution of Subsidiary (Note 15)

Subsequent Events (Note 18)

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



**Interim Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

Unaudited

	Three Months Ended		Nine Months Ended	
	2015	May 31, 2014	2015	May 31, 2014
<b>Revenue</b>				
Natural gas sales, net of royalties	\$ 11,904	\$ 22,116	\$ 37,264	\$ 45,473
<b>Expenses</b>				
Operating costs	7,442	4,406	17,500	10,295
Depletion and accretion	462	476	930	2,116
General and administrative	80,223	64,730	324,812	244,380
Interest	73,884	23,985	202,333	112,714
Accretion of convertible secured note (Note 10)	327,793	-	475,755	-
(Gain) loss on derivative liabilities (Note 11)	738,652	(38,964)	250,701	58,821
(Gain) loss on foreign exchange	(2,876)	(63,810)	286,136	99,614
Stock based compensation (Note 8 (d))	-	-	84,520	-
Stock based compensation-non employees (Note 8 (d))	-	-	28,173	-
Gain on settlement of litigation (Note 17 and 19)	(120,125)	-	(120,125)	-
Unrealized loss on marketable securities (Note 19)	53,518	-	53,518	-
Impairment loss on exploration and evaluation assets (Note 6 and 15)	4,720,194	1,315,276	4,720,194	1,315,276
Marketing and public relations	-	(14,250)	-	(14,250)
	<u>5,879,167</u>	<u>1,291,849</u>	<u>6,324,447</u>	<u>1,828,966</u>
<b>Net loss</b>	<b>(5,867,263)</b>	<b>(1,269,733)</b>	<b>(6,287,183)</b>	<b>(1,783,493)</b>
<b>Other comprehensive income (loss)</b>				
Foreign currency translation	(17,235)	(309,817)	691,207	(198,194)
<b>Total other comprehensive income (loss)</b>	<b>(17,235)</b>	<b>(309,817)</b>	<b>691,207</b>	<b>(198,194)</b>
<b>Net loss and comprehensive loss</b>	<b>\$ (5,884,498)</b>	<b>\$ (1,579,550)</b>	<b>\$ (5,595,976)</b>	<b>\$ (1,981,687)</b>
<b>Loss per share, basic and diluted</b>	<b>\$ (0.212)</b>	<b>\$ (0.098)</b>	<b>\$ (0.227)</b>	<b>\$ (0.143)</b>
<b>Weighted average shares outstanding, basic and diluted (Note 8 (c))*</b>	<b>27,671,541</b>	<b>12,913,907</b>	<b>27,671,541</b>	<b>12,486,599</b>

\*Reflects the August 25, 2014 one-for-ten stock consolidation (Note 8 (a))  
Comparative figures (Note 16)

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



**Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**  
 (Expressed in Canadian Dollars)  
 (Unaudited)

	SHARE CAPITAL Number of Shares*	SHARE CAPITAL \$	SHARE PURCHASE WARRANTS \$	SHARE PURCHASE OPTIONS \$	CONTRI- BUTED SURPLUS \$	FOREIGN CURRENCY TRANS- LATION RESERVE \$	ACCUMULATED DEFICIT \$	TOTAL SHARE- HOLDERS' EQUITY (DEFICIENCY) \$
Balance, August 31, 2013	12,262,517	7,050,350	1,422,526	170,972	506,200	204,657	(9,212,561)	142,144
Foreign currency translation	-	-	-	-	-	(198,194)	-	(198,194)
Warrants exercised	651,904	306,405	(78,238)	-	-	-	-	228,167
Warrants expired	-	-	(174,399)	-	174,399	-	-	-
Net loss for the period	-	-	-	-	-	-	(1,783,493)	(1,783,493)
Balance, May 31, 2014	12,914,421	7,356,755	1,169,889	170,972	680,599	6,463	(10,996,054)	(1,611,376)
Derivative warrants expired	-	-	-	-	709,299	-	-	709,299
Issuance of units as debt settlement	14,757,120	1,715,426	801,079	-	-	-	-	2,516,505
Foreign currency translation	-	-	-	-	-	(1,771)	-	(1,771)
Net loss for the period	-	-	-	-	-	-	(4,332,092)	(4,332,092)
Balance, August 31, 2014	27,671,541	9,072,181	1,970,968	170,972	1,389,898	4,692	(15,328,146)	(2,719,435)
Stock options expired	-	-	-	(11,112)	11,112	-	-	-
Warrants expired	-	-	(1,169,889)	-	1,169,889	-	-	-
Derivative warrants expired	-	-	-	-	535,542	-	-	535,542
Stock based compensation	-	-	-	112,693	-	-	-	112,693
Foreign currency translation	-	-	-	-	-	691,207	-	691,207
Net loss for the period	-	-	-	-	-	-	(6,287,183)	(6,287,183)
<b>Balance, May 31, 2015</b>	<b>27,671,541</b>	<b>9,072,181</b>	<b>801,079</b>	<b>272,553</b>	<b>3,106,441</b>	<b>695,899</b>	<b>(21,615,329)</b>	<b>(7,667,176)</b>

\*Reflects the August 25, 2014 one-for-ten stock consolidation (Note 8 (a))  
 Comparative figures (Note 16)

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



**Interim Condensed Consolidated Statements of Cash Flows**  
**For the Nine Months ended May 31,**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**2015**

**2014**

**Cash provided by (used in)**

**Operating activities**

Net loss	\$ (6,287,183)	\$ (1,783,493)
Items not involving cash:		
Depletion and accretion	930	2,116
Loss on derivative liabilities (Note 11)	250,701	58,821
Accetion of secured convertible note (Note 10)	475,755	-
Decommissioning obligations, net	(205)	-
Stock based compensation (Note 8 (d))	112,693	-
Gain on settlement of litigation (Note 17)	(120,125)	-
Unrealized loss on marketable securities (Note 17 and 19)	53,518	-
Impairment loss on exploration and evaluation assets (Note 6 and 15)	4,720,194	1,315,276
Net changes in non-cash working capital (Note 13)	330,633	503,503

**Net cash used in operating activities**

(463,089)      96,223

**Investing activities**

Additions to exploration and evaluation assets, net of recoveries (Note 6)	47,152	(193,531)
Restricted cash (Note 20)	(31,163)	-

**Net cash used in investing activities**

15,989      (193,531)

**Financing activities**

Shareholders' loans, net	190,841	30,144
Loans payable	187,824	-
Secured note payable, net	-	53,776

**Net cash provided by financing activities**

378,665      83,920

**Decrease in cash for the period**

(68,435)      (13,388)

Effect of exchange rate changes on cash

(22,541)      23,347

**Cash, beginning of period**

103,215      196,837

**Cash, end of period**

\$ 12,239      \$ 206,796

Supplemental Cash Flow Information and Non Cash Transactions (Note 13)  
Comparative figures (Note 16)

**The accompanying notes are an integral part of these interim condensed consolidated financial statements**

## 1. Nature of Business and Going Concern

Eagleford Energy Corp. ("Eagleford" or the "Company") was amalgamated under the Business Corporations Act (*Ontario*) on November 30, 2009. The principal activities of the Company consist of exploration, development and production of petroleum and natural gas properties. In addition, the Company holds a 0.3% net smelter return royalty on 8 mining claim blocks located in Red Lake, Ontario which is carried on the consolidated statement of financial position at \$Nil. The company's registered office is 1 King Street West, Suite 1505, Toronto, Ontario, M5H 1A1. The Company's common shares trade on the OTC Markets (OTCQB) under the symbol EGFDF.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business, as they come due for the foreseeable future. The Company is in the process of exploring and developing its oil and gas properties and has not yet realized profitable operations. The Company requires additional financing for its working capital and for the costs of exploration and development of its oil and gas properties.

Due to continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. The Company will continue to seek additional forms of debt or equity financing, or other means of funding its operations, however, there is no assurance that it will be successful in doing so or that funds will be available on terms acceptable to the Company or at all. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company.

The Company has accumulated significant losses and negative cash flows from operations in recent years which raise doubt as to the validity of the going concern assumption. The Company has a working capital deficiency of \$8,458,522 (August 31, 2014: \$3,489,237) and an accumulated deficit of \$21,615,329 (August 31, 2014: \$15,328,146). These material uncertainties may cast significant doubt upon the entity's ability to continue as a going concern. Accordingly, the consolidated financial statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in the accompanying consolidated financial statements.

During the year ended August 31, 2014, the Company entered into two separate Joint Development Agreements on the Matthews Lease and received cash of \$340,811 and the payment of certain obligations under the Matthews Lease. During fiscal 2014, the Company extinguished debt of \$1,408,737 through the issuance of share capital. During the nine month period ended May 31, 2015, the Company received \$200,773 for the payment of certain obligations under the Matthews Lease.

## 2. Basis of Preparation

### Statement of Compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB and interpretations issued by IFRIC. These unaudited interim condensed consolidated financial statements of the Company were approved by the Board of Directors on July 29, 2015.

### Basis of Preparation

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended August 31, 2014. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending August 31, 2015 could result in restatement of these unaudited condensed interim consolidated financial statements.

### Principles of Consolidation

Subsidiaries are all entities controlled by the Company. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The unaudited interim condensed consolidated financial statements include the accounts of Eagleford, the legal parent, together with its wholly-owned subsidiaries, 1354166 Alberta Ltd. a company operating in the province of Alberta, Canada ("1354166 Alberta"), Eagleford Energy, Zavala Inc. a Nevada company ("Zavala Inc."), EEZ Operating Inc., a Texas company incorporated May 12, 2015 ("EEZ Operating") and Dyami Energy Inc. ("Dyami") which was dissolved effective April 3, 2014 by filing a Certificate of Termination of a Domestic Entity with the Secretary of State, Texas (see Note 15).

### **3. Significant Accounting Policies**

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those described in our consolidated financial statements for the year ended August 31, 2014. These unaudited interim condensed consolidated financial statements are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting (IAS 34). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Reporting Standards have been omitted or condensed. These unaudited interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as at and for the year ended August 31, 2014.

### **4. Recent Accounting Pronouncements and Recent Adopted Accounting Standards**

#### **Recent Issued Accounting Pronouncements**

The following standards, amendments and interpretations, which may be relevant to the Company have been introduced or revised by the IASB:

(i) On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)). In November 2009, the IASB issued the first version of IFRS 9, Financial Instruments (IFRS 9 (2009)) and subsequently issued various amendments in October 2010, (IFRS 9 Financial Instruments (2010)) and November 2013 (IFRS 9 Financial Instruments (2013)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 effective September 1, 2018.

(ii) In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, and IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The Company intends to adopt IFRS 15 effective September 1, 2017.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements.

#### **Recent Adopted Accounting Standards**

The following standards, amendments and interpretations have been adopted by the Company as of September 1, 2014. There were no material impacts on the consolidated financial statements as a result of the adoption of these standards, amendments and interpretations: (i) IFRIC 21 Levies.

### **5. Segmented Information**

The Company's reportable and geographical segments are Canada and the United States. The accounting policies used for the reportable segments are the same as the Company's accounting policies. For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officer monitors the tangible, intangible and financial assets attributable to each segment.

**Notes to Interim Condensed Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2015 and 2014  
(Expressed In Canadian Dollars) (Unaudited)**

All assets are allocated to reportable segments. The following tables show information regarding the Company's reportable segments.

	Three Months Ended			Nine Months Ended		
	Canada	United States	Total	Canada	United States	Total
<b>May 31, 2015</b>						
Net revenue	\$11,904	-	\$11,904	\$37,264	-	\$37,264
Net loss	\$1,092,188	4,775,075	\$5,867,263	\$1,513,575	4,773,608	\$6,287,183
<b>May 31, 2014</b>						
Net revenue	\$22,116	-	\$22,116	\$45,473	-	\$45,473
Net(income) loss	\$(58,320)	1,328,053	\$1,269,733	\$351,474	1,432,019	\$1,783,493

	Canada	United States	Total
<b>As at May 31, 2015</b>			
Total Assets	\$280,046	892,457	\$1,172,503
Total Liabilities	\$8,105,160	734,519	\$8,839,679

<b>As at August 31, 2014</b>			
Total Assets	\$179,888	5,117,040	\$5,296,928
Total Liabilities	\$6,991,287	1,025,076	\$8,016,363

## 6. Exploration and Evaluation Assets

<b>Cost</b>	
Balance August 31, 2013	\$6,535,278
Additions, net	113,578
Change in decommissioning obligation estimates	7,225
Disposal of decommissioning obligations, Matthews Lease JDA	(26,426)
Impairment of Murphy Lease	(1,675,749)
Foreign exchange	82,686
Balance August 31, 2014	\$5,036,592
Additions, net	331,425
Deferred revenue	(378,577)
Change in decommissioning obligation estimates	(11,300)
Impairment of Matthews Lease	(4,720,194)
Foreign exchange	589,105
<b>Balance May 31, 2015</b>	<b>\$847,051</b>

The Company's exploration and evaluation assets are located in Texas, USA. As at May 31, 2015, the Company recorded an impairment of \$4,720,194 on its Matthews Lease (year ended August 31, 2014 an impairment of \$1,675,749 was recorded on the Murphy Lease (\$1,315,276 net of foreign currency translation gain of \$301,884 and write off of decommissioning obligations of \$58,589).

### Matthews Lease, Zavala County, Texas

During the year ended August 31, 2013, the Company, Dyami Energy and OGR Energy Corporation, the Lessees, were litigating a dispute with the Lessors of the Matthew's property. During the last quarter of fiscal year August 2013, the Company and the Lessors agreed to resolve the litigation and continue with the development of the Matthew's property. In order to comply with certain State legal requirements, it was deemed necessary by the Lessors counsel to continue with the development through a newly executed lease document and the Company formed, Zavala Inc. a new wholly owned subsidiary to execute the new lease. The new lease was signed effective September 1, 2013 and the first of two payments of US\$150,000 were paid to the Lessors upon signing the new lease as required initial pre-payment of anticipated production royalties along with a continuing development obligation under the lease to complete the previously drilled Matthews #1H horizontal well or drill a new well on the Matthews property no later than March 30, 2014. On September 1, 2013, the Matthews lease was renewed by the Company through Zavala Inc. and based on the concept of faithful representation under IAS 8, the carrying value of the Matthew's lease by Dyami Energy was considered to be the value for Zavala Inc. as this arrangement is simply a reorganization in substance.



**Notes to Interim Condensed Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2015 and 2014  
(Expressed In Canadian Dollars) (Unaudited)**

On December 3, 2013, (amended January 21, 2014) the Company entered into a Joint Development Agreement with Stratex Oil and Gas Holdings, Inc. (“Stratex”) (the “Stratex JDA”) to further develop the Matthews Lease. Under the terms of the Stratex JDA, Stratex acted as operator and upon Stratex delivering i) US\$150,000 to the lessors of the Matthews Lease on behalf of Zavala Inc., ii) delivering US \$150,000 to the Company; and iii) commencing a hydraulic fracture of the Matthews #1H not later than March 31, 2014, Stratex earned a 66.67% working interest before payout (50% working interest after payout) in the Matthews #1H well and a 50% working interest in the 2,629 acre Matthews Lease (see Note 17).

On April 11, 2014, the Company entered into a further Joint Development Agreement (“JDA2”) with Stratex and Quadrant Resources LLC, (“Quadrant”) for the development of the San Miguel formation on the Matthews Lease. Pursuant to the terms of the JDA2, upon satisfaction of certain conditions including the Phase 1 Work Program and the cash consideration described below, Quadrant could earn an undivided 66.67% before payout and a 50% working interest after payout to the base of the San Miguel formation of the Matthews Lease by i) drilling 3 new wells and reworking 5 wells at its sole cost and expense by June 30, 2015 (the “Phase I Work Program”); ii) deliver US\$100,000 to the Company upon execution of the JDA2 (paid); and iii) deliver US\$65,000 to the Company on each of July 8, 2014; October 6, 2014 , January 5, 2015 and April 6, 2015. The Company recorded the cash payments and the payment of certain obligations under the Matthews Lease by Quadrant totaling US\$303,712 (CDN\$378,577) at May 31, 2015, as a reduction in exploration and evaluation assets. Under the terms of the JDA2 Quadrant was required to complete the Phase I Work Program and pay the Company cash consideration totaling US\$360,000 by June 30, 2015, which it did not and accordingly the JDA2 expired without Quadrant earning any interest in the development area.

Effective March 31, 2015, the Company entered into a settlement agreement with Stratex and Quadrant pursuant Stratex assigned all of its rights, title and interest in, to and under the Matthews Lease and the JDA, to the Company and Quadrant. EEZ Operating is the operator of the Matthews Lease (see Note 17).

On July 2, 2015, the 2629 acre Matthews Lease was terminated according to its terms and the Company is currently assessing the number of acres to be held by production. The Company estimates that approximately 400 acres (representing approximately 15% of the total 2,629 lease acres) will be held by production (100% working interest and 75% revenue interest) and accordingly the Company has written down the lease to 15% of its carrying costs and recorded an impairment of exploration and evaluation assets of \$4,720,194. The royalties payable under the Matthews Lease are 25%.

**Murphy Lease, Zavala County, Texas**

Subsequent to September 1, 2013 and the continuing development of the Matthews lease, Dyami Energy continued its development efforts with the Murphy lease. A tentative joint venture agreement with Stratex was reached but did not materialize and efforts to develop the Murphy lease were not successful. The Company had solicited lenders and investors in an attempt to obtain debt/equity financings as a means to improve Dyami Energy’s financial situation. Despite the Company’s attempts, these efforts were unsuccessful and management determined that it could no longer fund the Murphy operations, hence the lease was considered impaired and an impairment loss was recorded by Dyami Energy during the third quarter of fiscal 2014 (see Note 15).

On March 6, 2014, the Company filed a Certificate of Termination of a Domestic Entity with the Secretary of State, Texas for its wholly-owned subsidiary Dyami Energy and effective April 3, 2014, Dyami Energy was dissolved. All prior obligations with respect to the Matthew’s and Murphy’s lease on the books of Dyami Energy prior to its dissolution were recorded by the Company.

**7. Provisions**

	<b>Decommissioning Provisions (Note a)</b>	<b>Other Provisions (Note b)</b>	<b>Total Provisions</b>
Balance, August 31, 2013	\$119,742	\$178,553	\$298,295
Accretion expense	961	-	961
Change in estimates	7,225	-	7,225
Disposals	(26,426)	-	(26,426)
Reductions	-	(169,196)	(169,196)
Dissolution of subsidiary (see Note 16)	(58,589)	-	(58,589)
Foreign exchange	4,630	(9,357)	(4,727)
Balance, August 31, 2014	47,543	-	47,543
Additions	56,093	-	56,093
Accretion expense	930	-	930
Change in estimates	(11,300)	-	(11,300)
Obligations settled	(205)	-	(205)
Foreign exchange	5,370	-	5,370
<b>Balance, May 31, 2015</b>	<b>\$98,431</b>	<b>\$ -</b>	<b>\$98,431</b>

**Notes to Interim Condensed Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2015 and 2014  
(Expressed In Canadian Dollars) (Unaudited)**

a) Decommissioning Obligations

The Company's decommissioning obligations result from its ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of decommissioning obligations to be \$98,431 (\$11,563 current and \$86,868 long term) at May 31, 2015 (August 31, 2014: \$11,768 current and \$35,775 long term) based on an undiscounted total future liability of \$112,656 (August 31, 2014: \$60,629). These payments are expected to be incurred between 2015 and 2031. The discount factor, being the risk free rate related to the liability is 2.25% (August 31, 2014: 2.57%).

b) Other Provisions

On January 28, 2014 a vendor of Dyami Energy received a summary judgment against Dyami Energy in the amount of \$169,196 plus interest at a rate of 18% per annum from September 17, 2012 until paid and legal fees of \$21,178 and interest at a rate of 5% per annum from the date of judgment until paid (District Court of Zavala County, Texas Case No. 13-02-12941-ZCV). During 2013 the full amount of the provision was recorded together with legal fees and interest and transferred to trade and other payables.

## 8. Share Capital and Reserves

The Company filed Articles of Amendment effective August 25, 2014 consolidating the common shares of Eagleford Energy Inc., on the basis of one (1) common share for every ten (10) common shares and changing its name to Eagleford Energy Corp. The stock consolidation has been applied retrospectively for all periods presented.

### 8 (a) Share Capital

**Authorized:**

Unlimited number of common shares at no par value

Unlimited non-participating, non-dividend paying, voting redeemable preference shares

**Issued:**

The following table sets out the changes in common shares during the respective periods:

<b>Common Shares</b>	<b>Number*</b>	<b>Amount</b>
Balance August 31, 2013	12,262,517	7,050,350
Warrants exercised (Note 8 (b) (a))	651,904	306,405
Debt settlement (Note 8 (b) (c))	14,757,120	1,715,426
<b>Balance August 31, 2014 and May 31, 2015</b>	<b>27,671,541</b>	<b>\$9,072,181</b>

\* Reflects the August 25, 2014 one-for-ten stock consolidation

### 8 (b) Share Purchase Warrants

The following table sets out the changes in warrants during the respective periods:

<b>Warrants</b>	<b>May 31, 2015</b>		<b>August 31, 2014</b>	
	<b>Number of Warrants*</b>	<b>Weighted Average Price*</b>	<b>Number of Warrants*</b>	<b>Weighted Average Price*</b>
Outstanding, beginning of period	9,293,560	\$0.18	4,020,095	\$0.40
Warrants exercised (Note (a))	-	-	(651,904)	\$0.35
Warrants expired (Note (b))	-	-	(1,453,191)	\$0.35
Warrants issued (Note (c))	-	-	7,378,560	\$0.10
Warrants expired (Note (d))	(1,915,000)	\$0.50	-	-
<b>Balance, end of period</b>	<b>7,378,560</b>	<b>\$0.10</b>	<b>9,293,560</b>	<b>\$0.18</b>

\* Reflects the August 25, 2014 one-for-ten stock consolidation

(a) Effective February 27, 2014, 651,904 common share purchase warrants were exercised at \$0.35 expiring February 27, 2014 for settlement of cash advances of \$228,167. The amount allocated to warrants based on relative fair value using the Black-Scholes option pricing model was \$78,238 (see Note 9).

(b) On February 5, 2014, 200,000 common share purchase warrants exercisable at \$0.35 expired. The amount allocated to warrants based on relative fair value using the Black-Scholes option pricing model was \$24,000 with a corresponding increase to contributed surplus. On February 25, 2014, 80,052 common share purchase warrants exercisable at \$0.35 expired. The amount allocated to warrants based on relative fair value using the Black-Scholes option pricing model was \$9,606 with a corresponding increase to contributed surplus. On February 27, 2014, 1,173,139 common share purchase warrants exercisable at \$0.35 expired. The amount allocated to warrants based on relative fair value using the Black-Scholes option pricing model was \$140,793 with a corresponding increase to contributed surplus.

(c) Effective August 30, 2014, the Company converted shareholders' loans and interest due in the aggregate amount of \$1,180,570 through the issuance of a total of 14,757,102 units in the capital of the Company at a price of \$0.08 per unit. Each unit is comprised of one (1) common share and one half of one (1/2) common share purchase warrant. Each full warrant entitles the holder to purchase one (1) common share at an exercise price of CDN\$0.10 until August 30, 2017. The fair value of the units (\$2,516,505) was allocated to common shares \$1,715,426 and warrants \$801,079 based on their relative fair values and \$1,335,935 was recorded as a loss on settlement of debt in the consolidated statement of operations and comprehensive loss. The warrant component was valued using a Binomial Lattice model whereas the fair value of the common share component was based on the current market value of the company's stock (see Note 10 and 11).

(d) On January 24, 2015, 600,000 common share purchase warrants exercisable at \$0.50 expired. The amount allocated to warrants based on relative fair value using the Black-Scholes option pricing model was \$507,038 with a corresponding increase to contributed surplus. On February 17, 2015, 1,315,000 common share purchase warrants exercisable at \$0.50 expired. The amount allocated to warrants based on relative fair value using the Black-Scholes option pricing model was \$662,851 with a corresponding increase to contributed surplus.

The following table summarizes the outstanding warrants as at May 31, 2015 and August 31, 2014, respectively:

Number of Warrants*	Exercise Price*	Expiry Date	Weighted Average Remaining Life (Years)	Warrant Value (\$)
7,378,560	\$0.10	August 30, 2017	2.25	801,079

  

Number of Warrants*	Exercise Price*	Expiry Date	Weighted Average Remaining Life (Years)	Warrant Value (\$)
600,000	\$0.50	January 24, 2015	0.40	\$507,038
1,315,000	\$0.50	February 17, 2015	0.47	662,851
7,378,560	\$0.10	August 30, 2017	3.00	801,079
9,293,560	\$0.50		2.47	1,970,968

\* Reflects the August 25, 2014 one-for-ten stock consolidation

### 8 (c) Weighted Average Shares Outstanding

The following table summarizes the weighted average shares outstanding:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015(1)	2014 (1)	2015 (1)	2014 (1)
Weighted Average Shares Outstanding Basic and Diluted*	27,671,541	12,913,907	27,671,541	12,486,599

\* Reflects the August 25, 2014 one-for-ten stock consolidation

(1) The effects of any potential dilutive instruments on loss per share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

### 8 (d) Share Purchase Options and Stock Based Compensation

The Company has a stock option plan to provide incentives for directors, officers, employees and consultants of the Company. The maximum number of shares, which may be set aside for issuance under the stock option plan, is 20% of the issued and outstanding common shares of the Company on a rolling basis.

The following table is a summary of the status of the Company's stock options and changes during the period:

	Number of Options*	Weighted Average Exercise Price
Balance, August 31, 2014 and 2013	105,000	\$1.64
Granted	1,000,000	0.12
Expired	(5,000)	1.64
<b>Balance, May 31, 2015</b>	<b>1,100,000</b>	<b>\$0.25</b>

\* Reflects the August 25, 2014 one-for-ten stock consolidation

The following table is a summary of the Company's stock options outstanding and exercisable at May 31, 2015 and August 31, 2014, respectively:

Options Outstanding				Options Exercisable	
Exercise Price	Number of Options*	Weighted Average Exercise Price	Weighted Average Remaining Life (Years) (1)	Number of Options*	Weighted Average Exercise Price
\$ 1.60	100,000	\$0.15	1.75	100,000	\$0.15
\$ 0.12	1,000,000	\$0.11	4.55	1,000,000	\$0.11
	<b>1,100,000</b>	<b>\$0.25</b>	<b>4.21</b>	<b>1,100,000</b>	<b>\$0.25</b>

Options Outstanding				Options Exercisable	
Exercise Price	Number of Options*	Weighted Average Exercise Price	Weighted Average Remaining Life (Years) (1)	Number of Options*	Weighted Average Exercise Price
\$ 1.60	100,000	\$1.60	2.50	1,00,000	\$1.60
\$ 2.50	5,000	\$2.50	0.16	5,000	\$ 2.50
	105,000	\$1.64	2.39	105,000	\$1.64

\* Reflects the August 25, 2014 one-for-ten stock consolidation

(1) In October 2012, the Optionee passed away and pursuant to the terms of the option agreement had a period of twelve (12) months after the date of such death before the expiry of the option.

### Stock Based Compensation

On November 12, 2014, the Company granted options to purchase 750,000 common shares to directors of the Company. These options are exercisable at \$0.12 per share, vest immediately and expire on November 11, 2019. The Company recorded non-cash stock based compensation expense of \$84,520.

### Stock Based Compensation – Non Employees

On November 12, 2014, the Company granted options to purchase 250,000 common shares to a consultant of the Company. These options are exercisable at \$0.12 per share, vest immediately and expire on November 11, 2019. The Company recorded non-cash stock based compensation expense of \$28,173.

The fair value of the stock options granted were estimated on the date of the grant using the Black Scholes option pricing model with the following weighted average assumptions used:

	November 12, 2014
Weighted average fair value per option	\$0.12
Weighted average risk free interest rate	1.54%
Forfeiture rate	0%
Weighted average expected volatility	287.49%
Expected life (years)	5
Dividend yield	Nil

**8 (e) Contributed Surplus**

Contributed surplus transactions for the respective periods are as follows:

	<u>Amount</u>
Balance, August 31, 2013	\$506,200
Warrants expired	174,399
Derivative warrants expired	709,299
Balance, August 31, 2014	<u>\$1,389,898</u>
Stock options expired	11,112
Warrants expired	1,169,889
Derivative warrants expired	535,542
<b>Balance, May 31, 2015</b>	<b><u>\$3,106,441</u></b>

**9. Related Party Transactions and Balances**

The following transactions with individuals related to the Company arose in the normal course of business have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent value.

**Compensation of Key Management Personnel**

The remuneration of directors and other members of key management personnel during the periods set out were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31,</b>		<b>May 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Short term employee benefits (1)	\$37,500	\$18,750	\$112,500	\$56,250
Stock based compensation expense (2)	-	-	84,520	-
	<u>\$37,500</u>	<u>\$18,750</u>	<u>\$197,020</u>	<u>\$56,250</u>

The following balances owing to James Cassina, the President of the Company are included in trade and other payables and are unsecured, non-interest bearing and due on demand:

	<u>May 31, 2015</u>	<u>August 31, 2014</u>
Short term employee benefits (1)	\$393,750	\$281,250
	<u>\$393,750</u>	<u>\$281,250</u>

- (1) The Company accrues management fees for the President of the Company at a rate of \$12,500 per month commencing September 1, 2014.
- (2) On November 12, 2014, the Company granted options to purchase 750,000 common shares to three directors of the Company. These options are exercisable at \$0.12 per share, vest immediately and expire on November 11, 2019 (see Note 8 (d)).

At May 31, 2015, the amount of directors' fees included in trade and other payables was \$21,000 (August 31, 2014: \$19,200).

At May 31, 2015, the Company had a promissory note payable to the President of the Company of \$10,000 (August 31, 2014: \$Nil). For the period ended May 31, 2015, the Company recorded interest on the promissory note of \$586 (May 31, 2014: \$19,507). At May 31, 2015, included in trade and other payables is interest payable of \$104,826 (August 31, 2014: \$91,727). The note is due on demand and bears interest at 10% per annum. Interest is payable annually on the anniversary date of the note. Effective February 27, 2014, 651,904 common share purchase warrants expiring February 27, 2014, were exercised by the President of the Company at \$0.35, for settlement of cash advances of \$228,167. On August 30, 2014 the Company issued 1,628,700 units at \$0.08 per unit as full settlement of a promissory note payable to the President of US\$120,000 (see Notes 8 (b) (a) (c) and Note 10).

At May 31, 2015, the Company had a note payable to Core Energy Enterprises Inc. ("Core") of US\$249,250 (August 31, 2014: US\$249,250). For the period ended May 31, 2015, the Company recorded interest on the promissory note of \$23,238 (May 31, 2014: \$Nil). At May 31, 2015, included in trade and other payables, is interest of \$23,238 (August 31, 2014: \$Nil). The note is due on demand and bears interest at 10% per annum. Interest is payable annually on the anniversary date of the note. At May 31, 2015, Core advanced the Company US\$28,500 on terms yet to be determined. The President of the Company is a major shareholder, officer and a director of Core (see Note 18).

At May 31, 2015, the Company had shareholders' loans payable of US\$655,000. (August 31, 2014: US \$655,000). For the period ended May 31, 2015, the Company recorded interest of \$61,067 (May 31, 2014: \$116,440) on the shareholders' loans payable. At May 31, 2015, included in trade and other payables, is interest of \$61,290 (August 31, 2014: \$269). The notes are payable on demand and bear interest at 10% per annum. Interest is payable annually on the anniversary date of the notes. On August 30, 2014, the Company issued 13,128,420 units at \$0.08 per unit as full settlement of promissory notes payable of US\$529,250, \$250,000 and interest payable of \$225,614 (see Note 8 (b) (c)).

At May 31, 2015, the Company had, loans payable of US\$121,000 and \$37,000 to 1288131 Alberta Ltd. (August 31, 2014: \$Nil). During the period ended May 31, 2015, the Company recorded interest on the loans payable of \$12,245. At May 31, 2015, included in trade and other payables, is interest of \$12,245 (August 31, 2014: \$Nil). The loans are payable on demand and bear interest at 10% per annum. Colin McNeil a director of the Company is also an officer, director and shareholder of 1288131 Alberta Ltd.

At May 31, 2015, the Company had a 10% per annum, secured convertible note payable to Benchmark Enterprises LLC ("Benchmark") with a face value of US\$1,216,175. (August 31, 2014: US\$1,216,175) (the "Note"). Benchmark is a shareholder of the Company. For the nine months ended May 31, 2015, the Company recorded interest on the Note of \$113,386 (May 31, 2014: \$78,028). At May 31, 2015, included in trade and other payables is interest of \$113,386 (August 31, 2014: \$Nil) (see Note 10 and 11).

## **10. Secured Note Payable and Shareholder Loans**

### **Secured Note Payable**

At August 31, 2014, the Company exchanged a secured note payable to Benchmark with a carrying value of \$1,322,347 (US\$1,216,175) for a secured convertible note payable to Benchmark with a face value of \$1,322,347 (US\$1,216,175) (the "Note"). The Note has an interest rate of 10% and is due on the earliest to occur of: (a) August 31, 2015; (b) the closing of any subsequent financing or series of financings by the Company that results in gross proceeds of an aggregate amount equal to or greater than US\$4,400,000, excluding conversion of any existing debt into equity; (c) the date of a sale by the Company of all of the shares in the capital stock of Zavala Inc. held by the Company from time to time; (d) the closing of a merger, reorganization, take-over or other business combination which results in a change of control of the Company or Zavala Inc.; or (e) an event of default.

In the event that the Company closes any subsequent financing or series of financings that results in gross proceeds to the Company of an aggregate amount equal to or greater than US\$2,000,000, excluding conversion of any existing debt into equity of the Company, the Company shall allocate US\$0.50 of every US\$1.00 exceeding the US\$2,000,000 raised from such financing to repay the Note. The Note is secured by all of the assets of the Company and Zavala Inc. The Company may, in its sole discretion, prepay any portion of the principal amount upon seven days' notice. Benchmark has the option at any time while the Note is outstanding to convert any unpaid principal and accrued interest into conversion units. A conversion unit is comprised of one (1) common share and one (1) common share purchase warrant entitling the holder to acquire a common share of the Company at a price equal to a 15% premium to the price of the common share acquired under the conversion unit. The price of the conversion unit is the lesser of a price equal to the 30-day VWAP of the Company as of the date of conversion, less 20% (as adjusted for any stock splits, combinations or similar events) or eight United States Cents (US\$0.08) per share the ("Conversion Unit").

### *Accounting Considerations*

The Company has accounted for this transaction as an exchange of debt instruments. Under IAS 39 "Financial Instruments: Recognition and Measurement", an exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment. Since the new debt instrument has a conversion option, the terms are considered substantially different and therefore gives rise to extinguishment accounting. Further, the Company analyzed the conversion unit under IAS 39 and determined that it meets the definition of an embedded derivative. Since both components of the Conversion Unit (the common share component and warrant component) contain a variable exercise/conversion price, the Conversion Unit meets the definition of a financial liability under IAS 32 "Financial Instruments: Presentation". As a result, the Conversion Unit is a derivative liability that requires fair value measurement each period.

Based on the previous conclusions, the Company allocated the old note first to the derivative component at its fair value with the residual allocated to the host debt contract, as follows:

	Allocation
Promissory note (old debt instrument)	\$ 1,322,247
Derivative liability (conversion unit)	(4,000,100)
Loss on exchange of debt instruments	2,677,753
	<u>\$ -</u>

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The Note will be accreted up to its face value of \$1,322,347 (US\$1,216,175) over the life of Note based on an effective interest rate. For the nine months ended May 31, 2015, the Company recorded accretion on the note in the amount of \$475,755. The carrying value of the note as at May 31, 2015 is \$475,755. For the nine months ended May 31, 2015, the Company recorded interest on the Note of \$110,367 (see Note 11).

**Shareholder Loans**

Effective August 30, 2014, the Company converted shareholders' loans and interest due in the aggregate amount of \$1,180,570 through the issuance of a total of 14,757,102 units in the capital of the Company at a price of \$0.08 per unit. Each unit is comprised of one (1) common share and one half of one (1/2) common share purchase warrant. Each full warrant entitles the holder to purchase one (1) common share at an exercise price of CDN\$0.10 until August 30, 2017. The fair value of the units (\$2,516,505) was allocated to common shares \$1,715,426 and warrants \$801,079 based on their relative fair values and \$1,335,935 was recorded as loss on settlement of debt. The original terms of the debt did not include settlement by the issuance of equity instruments (see Note 9).

*Accounting Considerations*

The Company has accounted for this transaction as an extinguishment of debt instruments for equity instruments under the guidance of IFRIC Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments". IFRIC 19 addresses the accounting of when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It states that if a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39.41. Accordingly, the debtor should derecognise the financial liability fully or partly. IFRIC 19 further states that the debtor recognises in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the fair value of the equity instruments issued. As result, the Company recorded a loss on extinguishment in the amount of \$1,335,935 in profit and loss which is the difference of the fair value of the equity instruments (\$2,516,505) and the carrying value of the debt instruments (\$1,180,570).

The warrant component was valued using a Binomial Lattice model whereas the fair value of the common share component was based on the current market value of the company's stock. The fair value of the conversion unit (\$2,516,505) was allocated to the common stock component (\$1,715,426) and warrant component (\$801,079) based on their relative fair values. Significant assumptions utilized in the Binomial Lattice process are as follows for the warrant component of the conversion unit as of August 30, 2014:

	August 30, 2014
Market value on valuation date	\$0.16
Contractual exercise rate	\$0.092
Term (years)	5.00 Years
Expected market volatility	196.97%
Risk free rate using zero coupon US Treasury Security rate	0.94%

**11. Derivative Financial Liabilities**

**Derivative Warrant Liabilities**

The Company has warrants issued with an exercise price in US dollars which are different from the functional currency of the Company (Canadian Dollars) and accordingly the warrants are treated as a financial liability and the fair value movement during the period is recognized in the profit or loss.

The following table set out the changes in derivative warrant liabilities during the respective periods:

	Number of Warrants*	Fair Value Assigned \$	Average Exercise Price US \$
As at August 31, 2013	914,761	1,976,883	4.06
Warrants expired	(170,923)	(709,299)	
Change in fair value estimates	-	57,723	-
As at August 31, 2014	743,838	1,325,307	4.06
Warrants expired	(217,500)	(535,542)	
Change in fair value estimates	-	197,990	
<b>As at May 31, 2015</b>	<b>526,338</b>	<b>987,755</b>	<b>5.80</b>

\* Reflects the August 25, 2014 one-for-ten consolidation

On August 31, 2014, 170,923 warrants exercisable at US\$5.00 expired and the fair value measured using the Black-Scholes option pricing model of \$709,299 was recorded as an increase to contributed surplus.

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On April 13, 2015, 187,500 and 30,000 warrants exercisable at US\$5.00 and US\$2.50, respectively expired and the fair value measured using the Black-Scholes option pricing model of \$535,542 was recorded as an increase to contributed surplus.

The following tables set out the number of derivative warrant liabilities outstanding at May 31, 2015 and August 31, 2014 respectively:

Number of Warrants*	Exercise Price US (\$)*	Expiry Date	Weighted Average Remaining Life (Years)	Fair Value CDN (\$)
91,250	5.00	July 20, 2015(1)	0.14	153,179
14,600	2.50	July 20, 2015(1)	0.14	41,230
250,000	5.00	August 7, 2015(1)	0.19	420,128
40,000	2.50	August 7, 2015(1)	0.19	108,128
112,490	5.00	September 25, 2015(1)	0.32	207,992
17,998	2.50	September 25, 2015(1)	0.32	57,098
<b>526,338</b>			<b>0.21</b>	<b>987,755</b>

\* Reflects the August 25, 2014 one-for-ten consolidation

(1) Current

Number of Warrants*	Exercise Price US (\$)*	Expiry Date	Weighted Average Remaining Life (Years)	Fair Value CDN (\$)
187,500	5.00	April 13, 2015 (1)	0.62	365,474
30,000	2.50	April 13, 2015(1)	0.62	99,420
91,250	5.00	July 20, 2015(1)	0.88	133,431
14,600	2.50	July 20, 2015(1)	0.88	35,915
250,000	5.00	August 7, 2015(1)	0.93	365,964
40,000	2.50	August 7, 2015(1)	0.93	94,188
112,490	5.00	September 25, 2015	1.07	181,178
17,998	2.50	September 25, 2015	1.07	49,737
<b>743,838</b>			<b>0.70</b>	<b>1,325,307</b>

\* Reflects the August 25, 2014 one-for-ten consolidation

(1) Current

**Derivative Unit Liabilities**

The following tables summarize the components of the Company's derivative unit liabilities and linked common shares as at May 31, 2015 and August 31, 2014:

	May 31, 2015		August 31, 2014	
	Indexed Shares	Fair Values	Indexed Shares	Fair Values
The financings giving rise to derivative unit liabilities:				
Conversion unit (1 common share and 1 common share purchase warrant)	<b>22,481,347</b>	<b>\$4,052,811</b>	15,202,188	\$4,000,100

The following table summarizes the effects on our loss associated with changes in the fair values of our derivative units liabilities for the periods ended May 31, 2015:

	Three Months Ended May 31, 2015	Nine Months Ended May 31, 2015
The financings giving rise to derivative unit liabilities:		
Conversion unit (1 common share and 1 common share purchase warrant)	\$742,059	\$52,711

At August 31, 2014 the Company issued a Secured Convertible Note with a face value \$1,322,347 (US\$1,216,175) which gave rise to a derivative financial instrument. The Note embodied certain terms and conditions that were not clearly and closely related to the host debt agreement in terms of economic risks and characteristics. Additionally these features met the definition of a financial liability under IAS 32 "Financial Instruments: Presentation". These terms and features consist of the Conversion Unit which is comprised of one (1) common share and one (1) common share purchase warrant entitling the holder to acquire a common share of the Company at a price equal to a 15% premium to the price of the common share acquired under the Conversion Unit (see Note 10).



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Current accounting principles that are provided in IAS 32 and IAS 39 require derivative financial instruments to be classified in liabilities and carried at fair value with changes recorded in profit and loss. The Company has selected the Monte Carlo Simulations valuation technique to fair value the common share component of the conversion unit because it believes that this technique is reflective of all significant assumption types, and ranges of assumption inputs, that market participants would likely consider in transactions involving common share components. Such assumptions include, among other inputs, interest risk assumptions, credit risk assumptions and redemption behaviors in addition to traditional inputs for option models such as market trading volatility and risk free rates.

The Company has selected Binomial Lattice to fair value the warrant component of the conversion unit because it believes this technique is reflective of all significant assumption types market participants would likely consider in transactions involving warrants. Significant inputs and results arising from the Monte Carlo Simulations process are as follows for the common share component contained in the conversion unit as at May 31, 2015 and August 31, 2014:

	May 31, 2015	August 31, 2014
Underlying price on valuation date*	\$0.2217	\$0.3090
Contractual conversion rate	\$0.07	\$0.08
Contractual term to maturity	0.25 Years	1.00 Years
Implied expected term to maturity	0.185 Years	0.613 Years
Market volatility:		
Range of volatilities	176.85% - 350.72%	78.41% - 269.09%
Equivalent volatility	263.79%	181.25%
Contractual interest rate	10.0%	10.0%
Equivalent market risk adjusted interest rate	10.00%	10.00%
Equivalent credit risk adjusted yield	3.62%	3.45%

\*The underlying price of the common share component of the conversion unit is the sum of the market price on the valuation date and the fair value of the warrant component derived from the binomial lattice model.

Significant assumptions utilized in the Binomial Lattice process are as follows for the warrant component of the conversion unit as at May 31, 2015 and August 31, 2014:

	May 31, 2015	August 31, 2014
Market value on valuation date	\$0.11	\$0.16
Contractual exercise rate	\$0.092	\$0.092
Term (years)	4.25 Years	5.00 Years
Expected market volatility	176.48%	179.21%
Risk free rate using zero coupon US Treasury Security rate	1.49%	1.63%

## 12. Financial Instruments and Concentration of Risks

The Company has classified its financial instruments as follows:

Financial Instrument	Category	Measurement method
Cash	Fair value through profit or loss	Fair value
Marketable securities	Fair value through profit or loss	Fair value
Derivative liabilities	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Secured note payable and shareholders' loans	Other financial liabilities	Amortized cost

The types of risk exposure and the ways in which such exposures are managed are as follows:

**Credit Risk**

Credit risk is primarily related to the Company's receivables from joint venture partners and the risk of financial loss if a partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from joint venture partners are normally collected within one to three months of the joint venture bill being issued to the partner. The Company historically has not experienced any collection issues with its joint venture partners to date. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company establishes an allowance for doubtful accounts as determined by management based on their assessed collectability; therefore, the carrying amount of trade and other receivables generally represents the maximum credit exposure. The Company believes that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business.

Concentration risks exist in cash because significant balances are maintained with one financial institution. The risk is mitigated because the financial institution is an international bank.

The Company's maximum exposure to credit risk is as follows:

	<b>May 31, 2015</b>	August 31, 2014
Cash	\$12,239	\$103,215
Trade and other receivables	29,426	157,121
Balance	<b>\$41,665</b>	<b>\$260,336</b>

**Liquidity Risk**

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to fulfill planned exploration commitments on its oil and gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. The current uncertainty in global markets could have an impact on the Company's future ability to access capital on terms that are acceptable to the Company. The Company has so far been able to raise the required financing to meet its obligations however, there can be no assurance that it will continue to do so in the future.

The following table illustrates the contractual maturities of financial liabilities:

<b>May 31, 2015</b>	<b>Payments Due by Period</b>				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and others payables	\$1,864,427	\$1,864,427	-	-	-
Shareholders' loans (1)	1,172,673	1,172,673	-	-	-
Loans Payable (1)	187,827	187,827	-	-	-
Total	<b>\$3,224,927</b>	<b>\$3,224,927</b>	<b>-</b>	<b>-</b>	<b>-</b>

  

August 31, 2014	<b>Payments Due by Period</b>				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and others payables	\$1,483,775	\$1,483,775	-	-	-
Shareholders' loans (1)	981,834	981,834	-	-	-
Total	<b>\$2,465,609</b>	<b>\$2,465,609</b>	<b>-</b>	<b>-</b>	<b>-</b>

(1) Translated at current exchange rate.

**Market Risk**

Market risk represents the risk of loss that may impact the Company's financial position, results of operations, or cash flows due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks. The Company does not use derivative financial instruments or derivative commodity instruments to mitigate this risk.

The oil and gas industry is exposed to a variety of risks including the uncertainty of finding and recovering economic reserves, the performance of hydrocarbon reservoirs, securing markets for production, commodity prices, interest rate fluctuations, potential damage to or malfunction of equipment and changes to income tax, royalty, environmental or other such factors.

**Notes to Interim Condensed Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2015 and 2014  
(Expressed In Canadian Dollars) (Unaudited)**

Market events and conditions in recent years including oil and gas supply and demand, disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions have caused significant volatility to commodity prices. These conditions contributed to a loss of confidence in the broader U.S. and global credit and financial markets. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions contributed to the broader credit markets to further deteriorate and stock markets to decline. These factors have negatively impacted company valuations and may impact the performance of the global economy going forward. Although economic conditions improved, the recovery has been slow in various sectors including in Europe and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and to result in volatility in the stock market.

The Company mitigates these risks by:

- utilizing competent, professional consultants as support to management,
- reviewing available petrophysical analysis of prospects,
- focusing on a limited number of core properties.

(i) **Commodity Price Risk**

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that affect the levels of supply and demand. The Company believes that movement in commodity prices that are reasonably possible over the next twelve month period may have a significant impact on the Company as all its oil properties are still in a development stage.

**Commodity Price Sensitivity**

The following table summarizes the sensitivity of the fair value of the Company's risk management position for the periods ended May 31, 2015 and 2014 to fluctuations in natural gas prices, with all other variables held constant. When assessing the potential impact of these price changes, the Company believes that 10% volatility is a reasonable measure. Fluctuations in natural gas prices potentially could have resulted in unrealized gains (losses) impacting net income as follows:

	2015		2014	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
Net revenue	\$42,140	\$32,388	\$51,403	\$39,543
Net loss	\$(6,282,307)	\$(6,292,059)	\$(1,777,563)	\$(1,789,423)

(ii) **Currency Risk**

The Company is exposed to the fluctuations in foreign exchange rates. The prices received by the Company for the production of natural gas and natural gas liquids are primarily determined in reference to United States dollars but are settled with the Company in Canadian dollars. The Company's cash flow for commodity sales will therefore be impacted by fluctuations in foreign exchange rates.

The Company operates in Canada and a portion of its expenses are incurred in U.S. dollars. A significant change in the currency exchange rates between the Canadian dollar relative to US dollar could have an effect on the Company's financial instruments. The Company does not hedge its foreign currency exposure. The following assets and liabilities are denominated in US dollars at May 31, 2015 and 2014:

	May 31, 2015	May 31, 2014
Cash	\$-	\$133,094
Restricted cash	25,000	-
Trade and other receivables	11,426	25,164
Exploration and evaluation assets	679,544	2,798,944
Prepaid expenses and deposits	1,614	-
Trade and other payables	(897,306)	(513,197)
Provisions	(69,690)	(31,574)
Derivative liabilities	(4,530,469)	(1,873,290)
Shareholders' loans	(932,750)	(1,553,500)
Secured convertible note	(384,588)	(960,000)
Loan payable	(121,000)	-
Net assets denominated in US\$	<u>\$(6,218,219)</u>	<u>\$(2,074,360)</u>
Net asset CDN dollar equivalent at period end <sup>(1)</sup>	<u>\$(7,751,010)</u>	<u>\$(2,254,207)</u>

(1) Translated at the exchange rate in effect at May 31, 2015 \$1.2465 (May 31, 2014 \$1.0867)

**Notes to Interim Condensed Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2015 and 2014  
(Expressed In Canadian Dollars) (Unaudited)**

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the periods set out from a change in the U.S dollar exchange rate in which the Company has exposure with all other variables held constant.

Percentage change in US Dollar	May 31, 2015		May 31, 2014	
	Increase	Decrease	Increase	Decrease
	In total comprehensive loss from a change in % in the US Exchange Rate (\$)		In total comprehensive loss from a change in % in the US Exchange Rate (\$)	
5%	(483,082)	483,082	(122,482)	122,482
10%	(966,164)	966,164	(244,965)	244,965
15%	(1,449,245)	1,449,245	(367,447)	367,447
20%	(1,932,327)	1,932,327	(489,929)	489,929

**(iii) Interest Rate Risk**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The majority of the Company's debt is short-term in nature with fixed rates. Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

**(iv) Fair Value of Financial Instruments**

The Company's financial instruments included on the consolidated statement of financial position as at May 31, 2015 and August 31, 2014, are comprised of cash, marketable securities, derivative liabilities, trade and other receivables, trade and other payables, loans payable, shareholders' loans and provisions.

The Company classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Financial Instrument Classification	May 31, 2015		August 31, 2014	
	Carrying Value \$	Fair Value \$	Carrying Value \$	Fair Value \$
<b>Fair value through profit or loss:</b>				
Cash	12,239	12,239	103,215	103,215
Marketable securities	252,624	252,624		
Derivative liabilities	5,040,566	5,040,566	5,325,407	5,325,407
<b>Loans and receivables:</b>				
Trade and other receivables	29,426	29,426	157,121	157,121
<b>Other financial liabilities:</b>				
Trade and other payables	1,864,427	1,864,427	1,483,775	1,483,775
Loans payable	187,827	187,827	-	-
Shareholders' loans	1,172,673	1,172,673	981,834	981,834
Provisions (short and long term)	98,431	98,431	47,543	47,543

Cash, marketable securities and derivative liabilities are stated at fair value (Level 1 measurement). The carrying value of trade and other receivables, trade and other payables, secured note payable, shareholders' loans and provisions approximate their fair value due to the short-term maturity of these financial instruments (Level 3 measurement).

**Capital Management**

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity and flexibility to fund its operations, growth and ongoing exploration and development commitments on its oil and gas interests. The Company is dependent on funding these activities through debt and equity financings and joint venture arrangements. Due to long lead cycles of the Company's exploration and development activities, the Company's capital requirements currently exceed its operational cash flow generated. As such the Company is dependent upon future financings in order to maintain its flexibility and liquidity and may from time to time be required to issue equity, issue debt, adjust capital spending or obtain additional farm-in arrangements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions, availability of capital and the risk characteristics of any underlying assets in order to meet current and upcoming obligations. Current plans for the development commitments of the Company's Texas lease include seeking debt or equity financing or seeking additional farm-in arrangements.

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 and favorable market conditions to sustain future development of the business. As at May 31, 2015 and August 31, 2014 and the Company considered its capital structure to comprise of shareholders equity and long-term debt.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's capital management plan during the period ended May 31, 2015. The Company is not subject to any externally imposed restrictions on its capital requirements.

**13. Supplemental cash flow information and Non-Cash Transactions**

The following table summarizes the non-cash transactions for the periods set out:

<b>Non-cash transactions</b>	<b>Nine Months Ended</b>	
	<b>May 31, 2015</b>	<b>May 31, 2014</b>
Stock options expired	\$11,112	-
Warrants expired	1,169,889	(174,399)
Derivative warrants expired	535,542	
Warrants exercised for settlement of cash advances	-	228,167
Royalties paid on Matthews Lease JDA	-	(167,715)
Disposal of decommissioning obligations	-	26,426

The following table summarizes the changes in non-cash working capital for the periods set out:

<b>Changes in non-cash working capital</b>	<b>Nine Months Ended</b>	
	<b>May 31, 2015</b>	<b>May 31, 2014</b>
Trade and other receivables	\$127,785	\$4,486
Trade and other payables	380,652	232,052
Deferred revenue	(177,804)	108,670
Prepaid expenses and deposits	-	158,295
Net change	\$330,633	\$503,503

**14. Commitments and Contingencies**

The Company has certain commitments on its Lease located in Zavala County, Texas, USA (see Note 6).

**15. Dissolution of Dyami Energy LLC**

During the year ended August 31, 2013, the Company, Dyami Energy and OGR Energy Corporation, the Lessees, were litigating a dispute with the Lessors of the Matthew's property. During the last quarter of fiscal year August 2013, the Company and the Lessors agreed to resolve the litigation and continue with the development of the Matthew's property. In order to comply with certain State legal requirements, it was deemed necessary by the Lessors counsel to continue with the development through a newly executed lease document and the Company formed, Zavala Inc. a new wholly owned subsidiary to execute the new lease. The new lease was signed effective September 1, 2013 and the first of two payments of US\$150,000 were paid to the Lessors upon signing the new lease as required initial pre-payment of anticipated production royalties along with a continuing development obligation under the lease to complete the previously drilled Matthews #1H horizontal well or drill a new well on the Matthews property no later than March 30, 2014. On September 1, 2013, the Matthews lease was renewed by the Company through Zavala Inc. and based on the concept of faithful representation under IAS 8, the carrying value of the Matthew's lease by Dyami Energy was considered to be the value for Zavala Inc. as this arrangement is simply a reorganization in substance.

Subsequent to September 1, 2013 and the continuing development of the Matthews lease, Dyami Energy continued its development efforts with the Murphy lease. A tentative joint venture agreement with Stratex was reached but did not materialize and efforts to develop the Murphy lease were not successful. The Company had solicited lenders and investors in an attempt to obtain debt/equity financings as a means to improve Dyami Energy's financial situation. Despite the Company's attempts, these efforts were unsuccessful and management determined that it could no longer fund the Murphy operations, hence the lease was considered impaired and an impairment loss was recorded by Dyami Energy during the third quarter. On March 6, 2014, the Company filed a Certificate of Termination of a Domestic Entity with the Secretary of State, Texas for its wholly-owned subsidiary Dyami Energy and effective April 3, 2014, Dyami Energy was dissolved. All prior obligations with respect to the Matthew's and Murphy's lease on the books of Dyami Energy prior to its dissolution were recorded by the Company.

The Company's investment in Dyami Energy has been deconsolidated from the Company's consolidated financial statements as at the effective date, and presented on the consolidated statements of operations and comprehensive loss and the consolidated statements of cash flows as an impairment of the net assets and liabilities on dissolution of subsidiary.

The following table presents the effect of the dissolution of Dyami Energy on the consolidated financial statements of the Company at April 3, 2014:

	April 3, 2014
Exploration and evaluation assets – Murphy lease	\$(1,675,749)
Provisions	58,589
Foreign currency translation reserve	301,884
Net assets and liabilities	\$(1,315,276)

**16. Comparative Figures**

The comparative unaudited interim condensed consolidated statement of shareholders' equity (deficiency), the comparative unaudited interim condensed consolidated statement of financial position as at May 31, 2014, and the comparative unaudited interim condensed consolidated statement of operations and comprehensive loss for the three and nine months ended May 31, 2014 have been revised primarily to reflect revisions made to the accounting treatment for the deconsolidation of Dyami Energy effective April 3, 2014. The accounting treatment for the comparative period May 31, 2014, is now consistent with the accounting treatment in the audited consolidated financial statements for the year ended August 31, 2014 (see Note 15). The effect of the changes are summarized as follows:

**Unaudited Interim Condensed Consolidated Statement of Shareholders' Equity (Deficiency)**

	<b>Nine Months Ended May 31, 2014</b>	
	As previously filed \$	As adjusted \$
Deficit, August 31, 2013	9,212,561	9,212,561
Net loss for the period	5,303,475	1,783,493
Deficit, May 31, 2014	14,516,036	10,996,054
Exploration and Evaluation Reserve, August 31, 2013	-	-
Matthews Lease revaluation	3,046,802	-
	3,046,802	-

**Unaudited Interim Condensed Consolidated Statement of Operations and Comprehensive Loss**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31, 2014</b>		<b>May 31, 2014</b>	
	As previously filed \$	As adjusted \$	As previously filed \$	As adjusted \$
Depletion and accretion	284	476	628	2,116
General and administrative	57,552	64,730	184,108	244,380
Interest	18,782	23,985	58,397	112,714
Impairment loss on exploration and evaluation assets, net	-	1,315,276	-	1,315,276
Loss from discontinued operations	4,847,831	-	4,951,335	-
Net loss for the period	4,789,715	1,269,733	5,303,475	1,783,493
Other comprehensive loss				
Foreign currency translation	(7,934)	(309,817)	103,690	(198,194)
Revaluation of the Matthews Lease	3,046,802	-	3,046,802	-
Total other comprehensive income (loss)	3,038,868	(309,817)	3,150,492	(198,194)
Net loss and comprehensive loss	1,750,847	1,579,550	2,152,983	1,981,687
Loss per share, basic and diluted	\$0.371	\$0.098	\$0.425	\$0.143

Also, certain comparative figures have been reclassified to conform to current period presentation.

**17. Litigation**

On or about September 30, 2014, Stratex filed a petition against Zavala Inc. in the District Court of Zavala County, Texas seeking breach of contract and actual damages of US\$152,293 for Zavala Inc.'s alleged non-payment of its proportionate share of minimum royalties due under the Matthews Lease. Zavala Inc., disputed the claim citing US\$300,000 paid by the Company was to be credited against the minimum royalties which Stratex had failed to do. Zavala Inc. paid the US\$152,293 under protest and filed a Response and Cross Notice of Default against Stratex (Cause No.: 14-09-13290-ZCV). Effective March 31, 2015, the Company entered into a settlement agreement with Stratex and Quadrant pursuant to which the Company is entitled to receive US\$25,000 in cash and 1,333,333 common shares of Stratex and Stratex shall assign all of its rights, title and interest in, to and under the Matthews Lease and JDA, to the Company and Quadrant. To date, the Company has received 1,333,000 common shares of Stratex and the assignment of the Matthews lease (see Note 19).

On or about October 27, 2014, the Company filed a statement of claim in the Ontario Superior Court of Justice against Alan Gaines, a former director of the Company for breach of fiduciary duty to the Company relating to Gaines role in the Company contracting with Stratex (Court File No.: 65-14-514935). Effective March 25, 2015, the Company entered into a settlement agreement with Gaines under which Gaines transferred to the Company 1,200,000 common shares and 1,200,000 common share purchase warrants of Stratex exercisable at US\$0.15 per until December 31, 2018 (see Note 19).

**18. Subsequent Events**

Subsequent to the period ended May 31, 2015, the President through Core Energy Enterprises Inc. advanced the Company CDN\$21,000 and US\$117,536 on terms yet to be determined.

**19. Marketable Securities**

At each financial reporting period, the Company estimates the fair value of investments which are held-for-trading, based on quoted closing bid prices at the consolidated statements of financial position date or the closing bid price on the last day the security traded if there were no trades at the consolidated statements of financial position date and such valuations are reflected in the consolidated financial statements. The resulting values for unlisted securities whether of public or private issuers, may not be reflective of the proceeds that could be realized by the Company upon their disposition. The fair value of the securities at May 31, 2015 was \$252,624. For the three and nine months ended May 31, 2015, the Company recorded an unrealized loss on marketable securities of \$53,518 (2014 \$Nil).

	<b>May 31, 2015</b>
Investment in quoted company security	<u>\$252,624</u>

Effective March 25, 2015, the Company entered into a settlement agreement with Gaines and received 1,200,000 common shares and 1,200,000 common share purchase warrants of Stratex exercisable at US\$0.15 per expiring December 31, 2018. The 1,200,000 common shares and warrants were recorded at their fair value of \$120,125 in marketable securities with a corresponding gain on settlement of litigation, in the unaudited interim condensed consolidated statement of operations and comprehensive loss (see Note 17).

Effective March 31, 2015, the Company entered into a settlement with Stratex and received 1,333,333 common shares of Stratex as repayment of the disputed minimum royalty amount of US\$152,293 and recorded the fair value of CDN\$186,017 in marketable securities and a corresponding decrease in exploration and evaluation assets (see Note 17).

## **20. Restricted cash**

The Company has a cash deposit of US\$25,000 with the Texas Railroad Commission to cover any potential liabilities relating to its wells in Zavala County, Texas.