Gordon Creek Energy Inc.
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Unaudited Condensed Interim
Consolidated Financial Statements of

GORDON CREEK ENERGY INC.

For the Three and Six Months Ended
July 31, 2015

See accompanying notes to the condensed interim consolidated financial statements

NOTICE TO READER

The accompanying condensed interim consolidated financial statements for Gordon Creek Energy Inc. have been prepared by management in accordance with International Financial Reporting Standards consistently applied. Recognizing that the Company is responsible for both integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the periods ended July 31, 2015 and 2014.

GORDON CREEK ENERGY INC.
Consolidated Interim Statements of Financial Position

(Cdn$)	Notes		July 31, 2015		January 31, 2015
ASSETS					
Current					
Cash and cash equivalents		$	968,928	$	27,118
Accounts receivable	4		84,445		228,664
Prepaid expenses and deposits	5		458,196		77,705
			1,511,569		333,487
Restricted cash	6		156,564		152,604
Exploration and evaluation assets	7		-		-
Property and equipment	8		23,903,927		27,581,532
		$	**25,572,060**	**$**	**28,067,623**
LIABILITIES					
Current					
Accounts payable and accrued liabilities	9	$	4,692,431	$	4,553,107
Due to related parties	17		1,515,418		1,488,086
Short term loan	10		3,614,052		-
Debentures	11		10,000,000		10,000,000
Financing deposit	12		-		21,943,402
			19,821,901		37,984,595
Note payable	12b		4,366,935		-
Decommissioning liabilities	13		515,649		495,205
			24,704,485		38,479,800
SHAREHOLDERS' DEFICIENCY					
Share Capital	14		24,220,196		24,163,484
Warrants	14		43,508		-
Contributed surplus			7,815,826		7,815,826
Accumulated other comprehensive loss			378,084		(22,675)
Deficit			(31,590,039)		(42,368,812)
			867,575		(10,412,177)
		$	**25,572,060**	**$**	**28,067,623**

Going Concern (Note 2)
Commitments and Contingencies (Note 19)

Approved on Behalf of the Board:

"Cameron White" — Cameron White, Director

"Stephen Cheikes" — Stephen Cheikes, Director

See accompanying notes to the condensed interim consolidated financial statements

GORDON CREEK ENERGY INC.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

		Three months ended July 31		Six months ended July 31	
(Cdn$)	*Notes*	**2015**	**2014**	**2015**	**2014**
REVENUE					
Oil and natural gas sales		$ 185,837	$ 159,568	$ 343,620	$ 360,591
Royalties		(30,401)	(29,725)	(56,804)	(85,676)
		155,436	129,843	286,816	274,915
EXPENSES					
Operating and transportation		221,879	162,720	430,233	306,857
General and administrative		122,034	153,475	257,290	338,439
Finance expenses, net	*20*	384,698	341,661	710,983	706,526
Depletion, depreciation and impairment	*8, 9*	47,856	29,216	104,800	75,137
Share-based compensation		-	-	-	138
Gain on debt modification	*12a*	(11,995,761)		(11,995,761)	-
Foreign exchange gain		76	1,049	498	2,233
		(11,219,218)	688,121	(10,491,957)	1,429,330
NET INCOME (LOSS)		$11,374,654	$ (558,278)	$10,778,773	$ (1,154,415)
Other comprehensive loss:					
Gain on translation of foreign subsidiaries		400,759	(54,173)	400,759	(54,174)
COMPREHENSIVE INCOME (LOSS)		$11,775,413	$ (612,451)	$11,179,532	$ (1,208,589)
BASIC AND DILUTED NET LOSS PER SHARE	*14*	$ 0.54	$ (0.05)	$ 0.57	$ (0.12)

See accompanying notes to the condensed interim consolidated financial statements

GORDON CREEK ENERGY INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Cdn$)	*Notes*	**Share Capital**	**Warrants**	**Contributed Surplus**	**Accumulated Other Comprehensive Loss**	**Deficit**	**Total Equity/ (Deficiency)**
January 31, 2014		$ 23,474,973	$ -	$ 7,815,688	$ (231,124)	$ (39,215,433)	$ (8,155,896)
Loss for the period		-	-	-	-	(1,154,415)	(1,154,415)
Shares issued for debenture interest	11, 14	356,954	-	-	-	-	356,954
Share-based compensation	14	-	-	138	-	-	138
Gain on translation of foreign subsidiaries		-	-	-	(54,173)	-	(54,173)
July 31, 2014		**$ 23,831,927**	**$ -**	**$ 7,815,826**	**$ (285,297)**	**$ (40,369,848)**	**$ (9,007,392)**
January 31, 2015		$ 24,163,484	$ -	$ 7,815,826	$ (22,675)	$ (42,368,812)	$ (10,412,177)
Loss for the period		-	-	-	-	10,778,773	10,778,773
Warrants	10, 14		43,508				43,508
Shares issued for debenture interest	11, 14	56,712	-	-	-	-	56,712
Gain on translation of foreign subsidiaries		-	-	-	400,759	-	400,759
July 31, 2015		**$ 24,220,196**	**$ 43,508**	**$ 7,815,826**	**$ 378,084**	**$ (31,590,039)**	**$ 867,575**

See accompanying notes to the condensed interim consolidated financial statements

GORDON CREEK ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

(Cdn$)	Notes	Six months ended July 31 2015	2014
OPERATING ACTIVITIES			
Net gain (loss)		$ 10,778,773	$ (1,154,415)
Items not involving cash			
Share-based compensation		-	138
Finance costs		118,699	356,954
Depletion, depreciation and impairment	7, 8	104,800	81,488
Gain on debt modification	12a	(11,995,761)	-
Foreign exchange gain		498	1,185
Changes in non-cash working capital	18	(159,082)	(49,996)
		(1,152,073)	(764,646)
FINANCING ACTIVITIES			
Advances from related parties	17	27,332	545,327
Proceeds from short term debt, net	10	3,552,304	-
Repayment of financing deposit	12	(56,246)	(79,160)
Changes in non-cash working capital	18	-	212,839
		3,523,390	679,006
INVESTING ACTIVITIES			
Change in restricted cash		-	76,230
Capital expenditures	8	(1,050,492)	(13,099)
Changes in non-cash working capital	18	6,241	-
		(1,044,251)	63,131
FOREIGN CURRENCY EFFECT OF FOREIGN CURRENCY DENOMINATED CASH		(385,256)	9,503
CHANGE IN CASH FOR THE PERIOD		941,810	(13,006)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		27,118	25,974
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 968,928**	**$ 12,968**
Cash and cash equivalents is comprised of:			
Bank balances		$ 968,928	$ 12,939
Investment savings account balance		-	29
		$ 968,928	**$ 12,968**

See accompanying notes to the consolidated financial statements

1. CORPORATE INFORMATION

Gordon Creek Energy Inc. ("Gordon Creek" or "the Company") is engaged in the acquisition, exploration, development and production of oil and natural gas properties located in the United States of America ("U.S."). Gordon Creek Energy Inc. is a publicly traded company, incorporated in British Columbia, Canada. The Company's head office is located at 1350, 734 7th Avenue SW, Calgary, AB, T2P 3P8.

Effective October 24, 2013, the Company's name changed to Gordon Creek Energy Inc. and the common shares of the Company continued trading on the TSX Venture Exchange under the symbol "GDN".

The Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on September 29, 2015

2. GOING CONCERN

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business.

For the six months ended July 31, 2015, the Company reported a net loss of $1,503,804 (excluding the gain on debt modification of $12 million) and has an accumulated deficit of $31,590,039 at July 31, 2015. Effective July 31, 2015, the Company terminated the commodity stream production payment agreement with Sandstorm and all associated drilling and workover commitments and minimum annual before tax cash flow guarantees. In consideration for the termination of the interest, Sandstorm will receive a subordinated two year note for US$4.0 million and a 10% gross over-riding royalty on all Gordon Creek production. The Company will have the right, at any time, to purchase one half (5%) of the Sandstorm royalty for US$6.0 million. As a result of the termination of the Sandstorm streaming interest, the Company will effectively now own, subject to royalties, a 100% interest in the Gordon Creek field and the Company's Gordon Creek reserves and cash flows will be calculated accordingly.

On March 6, 2015 the Company entered into an agreement with Excalibur Partners XX, LP whereby Excalibur will provide a bridge loan that will be focused on re-working and re-activating up to 14 previously drilled development wells ("PDNP Wells") in order to increase cash flows and reserves. During the three months ended April 30, 2015 the Company closed on a first tranche of US$1.0 million ("tranche 1"). During the three months ended July 31, 2015 the Company closed on a final tranche of US$2.0 million ("tranche 2") for aggregate funds of US$3.0 million.

The Excalibur loan consists of a subordinated secured promissory note carrying an interest rate of 15% (18% if the Company chooses to accrue interest payments) due on the earlier of February 28, 2016 (tranche 1) and July 17, 2016 (tranche 2) or upon default by the Company of certain provisions of the loan. Excalibur will also receive a 6% gross overriding royalty on production from the PDNP Wells, which will be expanded to cover all Gordon Creek production if the facility is not repaid by maturity date. The 6% royalty will be able to be repurchased by the Company at any time for US$1.68 million provided that all payments of principal and interest were paid when due. Excalibur will also receive, subject to TSX-V approval and subject to anti-dilution adjustments, three year warrants purchasing up to 5,519,132 shares of the Company at a price of $0.06 per share. Commencing six months from the closing date, Excalibur will receive, until the loan is repaid, a 60% royalty (net of overriding royalties and shrinkage) on the PDNP wells, the payments of which will be applied to the outstanding principal and interest. The first 60% royalty payment will be due seven months after the closing date. The loan will be subordinated to the existing $10,000,000 debentures, US$4,000,000 in subordinated Sandstorm note and US$3,000,000 in trade accounts payables. The loan will be secured by a mortgage security interest in all oil and natural gas properties.

The Company's $10,000,000 natural gas linked debentures are due October 31, 2015.

The above events and circumstances represent a material uncertainty that may cast significant doubt as to the ability of the Company to meet its obligations as they come due, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The ability of the Company to continue as a going concern is uncertain and dependent upon obtaining the financing necessary to meet its future exploration commitments and to complete the development of its properties. The Company intends to raise additional capital by way of issuing debt and/or equity. These funding arrangements are not yet in place, but given its external reserve engineer estimated proved plus probable pre-tax net future cash flows discounted at 15% of approximately US$27 million, the Company is optimistic that additional funding can be secured. There is no assurance that the initiatives undertaken by management will be successful.

The realization of the Company's investment in oil and natural gas properties is dependent upon various factors, including the existence of economically recoverable oil and natural gas reserves, the ability to obtain the necessary financing to complete the exploration and development of the properties, future profitable operations, or, alternatively, upon disposal of the investment on an advantageous basis. These financial statements do not reflect any adjustments related to the carrying values and classifications of assets and liabilities and the reported revenues and expenses that would be necessary should the Company be unable to continue as a going concern. Any adjustments necessary to the financial statements if the Company ceases to be a going concern could be material.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" using accounting policies consistent with International Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain information and disclosures normally included in the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted.

(b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

(c) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Significant accounting policies

These condensed interim consolidated financial statements are presented have been prepared following the same accounting policies and methods of computation as the Company's 2015 annual consolidated financial statements. There are no new or amended accounting standards or interpretations issued during the six months ended July 31, 2015 that are applicable to the Corporation in future periods.

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

4. ACCOUNTS RECEIVABLE

The Company considers all amounts greater than 90 days past due. As at July 31, 2015 and 2014, the 90 days past due receivables amounted to approximately $33,000 and $75,000, respectively, and none of these receivables have been assessed as impaired. Accounts receivables are unsecured and non-interest bearing. There are corresponding accounts payable balances which set off certain past due accounts receivable balances. In determining the recoverability of accounts receivable, the Company considers the type and age of the outstanding receivables, the credit risk of the counterparties, and the recourse available to the Company.

(amounts in Canadian dollars)

	July 31, 2015	January 31, 2015
Oil and natural gas sales	$ 63,149	$ 70,395
Sandstorm receivable	-	117,995
Joint interest partners and other	11,809	17,947
GST / HST	9,487	22,327
	$ 84,445	**$ 228,664**

5. PREPAID EXPENSES AND DEPOSITS

	July 31, 2015	January 31, 2015
Prepaid Expenses	$ 320,256	$ 24,917
Advances on production equipment and services	137,940	52,788
	$ 458,196	**$ 77,705**

6. RESTRICTED CASH

In connection with the Utah State bonding requirements, the Company posted letters of credit in the aggregate amount of US $120,000 (Cdn $156,564) (January 31, 2015 – US $ 120,000 (Cdn $152,604)) for which a short-term investment is held as collateral maturing September 14, 2015.

7. EXPLORATION AND EVALUATION ASSETS

The following financial information represents the amounts relating to activity associated with the exploration for and evaluation of oil and natural gas resources.

	July 31, 2015	January 31, 2015
Balance, beginning of period	$ -	$ 255,655
Impairment / Lease expiries	-	(292,065)
Foreign currency translation	-	36,410
Balance, end of period	**$ -**	**$ -**

Exploration and evaluation assets consist of the Company's undeveloped land and exploration projects which are pending the determination of technical feasibility. The Company recorded an impairment in the year ended January 31, 2015 of $292,065. The impairment relates to the valuation of the Weston County, Wyoming project due to expiring leases and the Company's limited capital being focused on the Gordon Creek project.

(amounts in Canadian dollars)

8. PROPERTY AND EQUIPMENT

	Corporate Assets	Production Assets	Oil and Natural Gas Properties	Totals
Cost				
January 31, 2015	$ 82,636	$ 143,497	$ 30,546,602	$ 30,772,735
Additions	-	-	1,050,492	1,050,492
Issuance of 10% gross over-riding royalty (note 12)	-	-	(5,149,110)	(5,149,110)
Foreign currency translation	479	3,724	607,488	611,691
At July 31, 2015	83,115	147,221	27,055,472	27,285,808
Accumulated depletion and depreciation				
January 31, 2015	82,636	125,213	2,983,354	3,191,203
Charge for the year	-	5,985	98,816	104,801
Foreign currency translation	479	3,519	81,879	85,877
At July 31, 2015	83,115	134,717	3,164,049	3,381,881
Net book value at July 31, 2015	**$ -**	**$ 12,504**	**$ 23,891,423**	**$ 23,903,927**

	Corporate Assets	Production Assets	Oil and Natural Gas Properties	Totals
Cost				
January 31, 2014	$ 80,317	$ 125,465	$ 27,225,277	$ 27,431,059
Additions	-	-	75,070	75,070
Disposals (note 15(a))	-	-	(769,121)	(769,121)
Decommissioning liabilities	-	-	21,517	21,517
Foreign currency translation	2,319	18,032	3,993,859	4,014,210
At January 31, 2015	82,636	143,497	30,546,602	30,772,735
Accumulated depletion and depreciation				
January 31, 2014	79,002	94,543	2,462,240	2,635,785
Charge for the year	1,313	15,244	169,532	186,089
Disposals	-	-	(21,378)	(21,378)
Foreign currency translation	2,321	15,426	372,960	390,707
At January 31, 2015	82,636	125,213	2,983,354	3,191,203
Net book value at January 31, 2015	**$ -**	**$ 18,284**	**$ 27,563,248**	**$ 27,581,532**

The Company has pledged assets with the carrying value of $23,682,686 (January 31, 2015 - $27,199,643) as security on the natural gas linked debentures (note 11).

Costs subject to depletion included $23,979,000 of future development costs for the six months ended July 31, 2015 and $24,812,000 for the year ended January 31, 2015.

(amounts in Canadian dollars)

Capitalized costs amounting to $nil were excluded from the depletable base at July 31, 2015 (January 31, 2015 - $160,031), relating to production equipment that was in the construction phase and not on location at Gordon Creek. To July 31, 2015, the Company has not capitalized any general and administrative expenses or finance costs to property and equipment.

On March 31, 2013, a Notice of Oil and Gas Liens was filed against certain wells of the Company's U.S. subsidiaries in the aggregate amount of US$1,014,587. All amounts have been fully recorded as accounts payable and accrued liabilities as at July 31, 2015 and 2014. (See also note 19).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31, 2015	**January 31, 2015**
Trade payables	$ 2,584,336	$ 2,985,089
Debenture interest payable (note 11)	1,434,932	995,753
Accrued liabilities	587,115	572,265
Short term loan interest payable (note)	86,048	-
	$ 4,692,431	**$ 4,553,107**

10. SHORT TERM LOAN

On March 6, 2015 the Company entered into an agreement with Excalibur Partners XX, LP whereby Excalibur will provide a bridge loan that will be focused on re-working and re-activating up to 14 previously drilled development wells ("PDNP Wells") in order to increase cash flows and reserves. During the three months ended April 30, 2015 the Company closed on a first tranche of US$1.0 million ("tranche 1"). During the three months ended July 31, 2015 the Company closed on a final tranche of US$2.0 million ("tranche 2") for aggregate funds of US$3.0 million.

The Excalibur loan consists of a subordinated secured promissory note carrying an interest rate of 15% (18% if the Company chooses to accrue interest payments) due on the earlier of February 28, 2016 (tranche 1) and July 17, 2016 (tranche 2) or upon default by the Company of certain provisions of the loan. Excalibur will also receive a 6% gross overriding royalty on production from the PDNP Wells, which will be expanded to cover all Gordon Creek production if the facility is not repaid by maturity date. The 6% royalty will be able to be repurchased by the Company at any time for US$1.68 million provided that all payments of principal and interest were paid when due. Excalibur will also receive, subject to TSX-V approval and subject to anti-dilution adjustments, three year warrants purchasing up to 5,519,132 shares of the Company at a price of $0.06 per share. Commencing six months from the closing date, Excalibur will receive, until the loan is repaid, a 60% royalty (net of overriding royalties and shrinkage) on the PDNP wells, the payments of which will be applied to the outstanding principal and interest. The first 60% production payment royalty payment will be due seven months after the closing date. The loan will be subordinated to the existing $10,000,000 debentures (note 11), US$4,000,000 in subordinated Sandstorm note (note 12) and US$3,000,000 in trade accounts payables. The loan will be secured by a mortgage security interest in all oil and natural gas properties.

(amounts in Canadian dollars)

The following table summarizes changes in the short term loan:

	July 31, 2015
Balance, January 31, 2015	$ -
Proceeds from short term loan	3,861,200
Issuance costs	(308,896)
Warrants	(43,508)
Accretion of discount and amortization of issuance costs	54,720
Foreign currency translation	50,536
Balance, July 31, 2015	**$ 3,614,052**

11. DEBENTURES

The Company has $10,000,000 in three year, secured, natural gas linked debentures due October 31, 2013 which were extended to October 31, 2015 effective February 1, 2015. The Debentures bear interest at a base rate of 15% per annum calculated daily and payable quarterly with an adjustment provision whereby a 1% interest premium is added each quarter for every US$0.50 by which the price of natural gas as published by the Henry Hub exceeds US$5.00, capped at 25% per annum. One-half of each quarterly interest payment will be paid in fully paid common shares of the Company at a deemed price per interest share equal to the greater of (i) a 10% discount to the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange over the quarter and (ii) the discounted market price of the Company's common shares. The debentures are secured against the Company's U.S. property and equipment (note 8). The Company may redeem the debentures before they come due at a price of 115% of the principal amount being redeemed together with accrued and unpaid interest. A 66.67% majority of debenture holders is required to alter the terms of the debentures including the power to sanction the conversion of the debentures for shares in the Company.

Effective February 1, 2015 the holders of its 15% Gas Linked Debentures unanimously approved the following modifications to the terms of the debentures:

1. The interest rate payable on the Debentures be reduced to 10% plus a bonus interest on gas prices over $5 which is entirely payable in cash. This will eliminate any further issuances by the Company of common shares as partial interest payments. The Company is currently in arrears of its interest payment obligations.

2. The term of the Debentures be extended to October 31, 2015.

The debenture holders also approved and consented to the terms of the financing provided by Excalibur (note 10) and the amendments to the Company's streaming agreement with Sandstorm (note 12).

Interest relating to the principal balance of $252,055 to be settled by cash has been accrued in accounts payables. The Company is in default of the cash payment for the January 31, 2014 to July 31, 2015 quarterly distributions resulting in a total of $1,434,932 accrued in accounts payable for cash interest owing. As at September 29, 2015 the debenture holders have not demanded repayment.

(amounts in Canadian dollars)

	July 31, 2015	January 31, 2015
Balance, beginning of year	$ 10,000,000	$ 10,000,000
Accretion and transaction costs	-	-
Balance, end of period	**$ 10,000,000**	**$ 10,000,000**

The fair value of the commodity linked interest rate on the debentures, which is identified as an embedded derivative, is $nil (2015 - $nil). The fair value was determined by discounting the difference between the contracted rate and published forward price curves adjusted for differentials and foreign exchange rates as at the period end rate.

12. DEBT MODIFICATION

In fiscal 2012, the Company entered into a US$25 million commodity stream production payment agreement with Sandstorm, whereby Sandstorm has the right to purchase 35% of the Company's Gordon Creek natural gas production at a price of US$1.00 per Mcf plus 20% of the amount by which the Gordon Creek field gate price exceeds US$4.00. Sandstorm made an initial advance of US$15 million to the Company and agreed to advance the remaining US$10 million once the Company met minimum drilling and workover commitments. During fiscal 2013, the Company negotiated an amendment to its agreement with Sandstorm whereby Sandstorm provided an early advance on the remaining production payment of US$3 million of the US$10 million.

Effective July 31, 2015, the Company terminated the commodity stream production payment agreement with Sandstorm and all associated drilling and workover commitments and minimum annual before tax cash flow guarantees. In consideration for the termination of the interest, Sandstorm will receive a subordinated two year note for US$4.0 million and a 10% gross over-riding royalty on all Gordon Creek production. The Company will have the right, at any time, to purchase one half (5%) of the Sandstorm royalty for US$6.0 million. As a result of the termination of the Sandstorm streaming interest, the Company will effectively now own, subject to royalties, a 100% interest in the Gordon Creek field and the Company's Gordon Creek reserves and cash flows will be calculated accordingly.

a) GAIN ON DEBT MODIFICATION

As at July 31, 2015 amounts advanced and repaid, via production, to Sandstorm was US$17,083,196, while the carrying value of the Company's 10% gross over-riding royalty on all Gordon Creek Production was US$4,124,898 and the fair market value of the note payable was US$3,347,080, resulting in a gain on debt modification of US$9,611,217 (CDN $11,995,761).

b) NOTE PAYABLE

Effective July 31, 2015 as partial of the consideration for the termination commodity stream production payment agreement with Sandstorm the Company issued a subordinated two year note for US$4.0 million. The note payable bears interest at 5% per annum, calculated and compounded quarterly, in arrears, and due and payable on July 31, 2017.

The note payable has been recorded at fair market value and will accrete up to the original face value of US$4.0 million at maturity. The fair value of the note payable was determined at the time of issuance as the difference between the face value of the note payable and the discounted cash flows assuming a 15% effective interest rate, which was the estimated rate for debt with similar terms issued to a company without a prior relationship with the Company. The accretion and the interest accrued are expensed on the statement of loss.

(amounts in Canadian dollars)

The following table summarizes changes in the note payable:

	July 31, 2015
Balance, beginning of year	$ -
Issuance of note payable	4,366,935
Accretion of discount	-
Foreign currency translation	-
Balance, end of period	**$ 4,366,935**

13. DECOMMISSIONING LIABILITIES

Upon retirement of its oil and natural gas assets, the Company anticipates incurring costs associated with decommissioning. The total undiscounted amounts of the estimated obligations are approximately $678,444 (US $520,000) (January 31, 2015 - $661,284 (US $520,000)) and are expected to be settled based on the economic lives of the underlying assets, which currently extend up to twenty-five years into the future and will be funded from general corporate resources at the time of abandonment. The estimated future cash flows have been discounted using the average risk free rate of approximately 2.99% and an inflation rate of 1.50% (January 31, 2015 – approximately 2.99% and 1.50%, respectively).

The risk free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning liabilities. A 0.5% increase in the risk free rate would decrease decommissioning liabilities by $1,500 at July 31, 2015 and $44,000 at January 31, 2015.

The following table reconciles decommissioning liabilities:

	July 31, 2015	**January 31, 2015**
Balance, beginning of year	$ 495,205	$ 398,594
Liabilities related to dispositions (note 15(b))	-	-
Change in estimate and discount rate	-	21,517
Accretion expense (note 23)	7,267	12,949
Foreign currency translation	13,176	62,145
Balance, end of period	**$ 515,649**	**$ 495,205**

14. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Issued and outstanding:

	Number of Shares	**Amount**
Balance, January 31, 2014	8,174,577	$ 23,474,973
Shares issued for debenture interest	9,272,062	688,511
Balance, January 31, 2015	17,446,639	$ 24,163,484
Shares issued for debenture interest	3,780,794	56,712
Balance, July 31, 2015	**21,227,433**	**$ 24,220,196**

(amounts in Canadian dollars)

Private placement to related party

Concurrent with a private placement during fiscal 2012, a related party purchaser was provided with a loan in the amount of $77,910. This loan corresponded with the purchase of 34,627 common shares issued through the private placement. During the year ended January 31, 2013, $24,704 of the loan has been repaid and $53,206 remains outstanding as at July 30, 2015. The loan is considered to be under the scope of IFRS 2 – Share-based payment, and accordingly no financial asset is recognized on the statement of financial position.

Gain (Loss) per share

The following table summarizes the post-consolidated weighted average shares used in calculating net loss per share:

	July 31, 2015	January 31, 2015
Weighted average shares outstanding	19,186,839	13,000,282
Dilutive effect of options and warrants	-	-
Diluted weighted average shares outstanding	**19,186,839**	**13,000,282**

For the periods ended July 31 and January 31, 2015, all options and warrants were excluded from the diluted calculation as their effect was anti-dilutive.

Share-based compensation plan

The Company has established a Share Option Plan (the "option plan") which provides for options to purchase common shares to be granted by the Company to directors, officers, employees and consultants of the Company. Options typically vest over a period of 12 to 18 months. The fair value of the options issued is recognized in share-based compensation over the vesting period, with a corresponding charge to contributed surplus. The maximum number of common shares which may be reserved for issuance under the plan is 10% of the number of issued and outstanding common shares of the Company.

The following table summarizes the changes in stock options outstanding:

	Number of Options		Weighted Average Exercise Price
Balance, January 31, 2014	333,333	$	3.35
Expired	(158,333)		3.00
Balance, January 31, 2015	**175,000**	**$**	**3.66**
Balance, July 31, 2015	**175,000**	**$**	**3.66**

The following table summarizes the stock options outstanding at July 31, 2015:

Exercise price	Number of shares	Expiry Date	Weighted average remaining contractual life	Number exercisable
$ 2.25	65,000	May 2016 - Sept 2017	0.95	65,000
$ 4.50	110,000	November 2016	1.29	110,000
	175,000		**1.17**	**175,000**

(amounts in Canadian dollars)

Share purchase warrants
The following table summarizes the changes in the warrants outstanding:

	Number of warrants	Weighted average exercise price
Balance, January 31, 2015	-	-
Issued (note 10)	5,519,133	$0.06
Balance, July 31, 2015	**5,519,133**	$0.06

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to financial risks including credit risk, liquidity risk and market risk from changes in commodity prices, foreign currency rates and interest rates which could affect the value of the financial instruments held. The Company employs risk management strategies and polices to ensure that any exposure to risk is mitigated.

The Company's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, restricted cash, accounts receivable, deposits, accounts payable and accrued liabilities, due to related parties, debentures, and financing deposit. The fair values of cash and cash equivalents, accounts receivable, deposits, restricted cash, accounts payable and accrued liabilities, due to related parties, debentures, and financing deposit approximate their carrying value due to their short-term maturities.

a) Fair value of financial instruments

The Company classifies the fair value of these balances according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values 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. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

Accordingly, cash and cash equivalents and restricted cash are measured using a Level 1 designation. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy. The fair value of the commodity linked interest rate on the debentures (see note 11) at July 31, 2015 is $nil (January 31, 2015 - $nil). The fair value is calculated using a Level 2 designation.

b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's joint venture partners and oil and natural gas marketers. Receivables from purchasers of oil and natural gas are normally collected on the 25th day of the month following production. Receivables from joint venture partners are typically collected within one to three months of the joint venture billing being issued.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of Gordon Creek believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Thunderbird's management believes all receivables will be collected.

(amounts in Canadian dollars)

The Company manages the credit exposure related to cash and cash equivalents and restricted cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The majority of the Company's accounts receivables are due from companies in the oil and natural gas industry and are subject to normal industry credit risks including commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued by the partner. The Company has not experienced any credit loss in the collection of accounts receivable to date.

The Company sells all of its production to one natural gas marketer and therefore is subject to concentration risk. At July 31, 2015, the Company's credit exposure to the natural gas marketer represents approximately 75% (January 31, 2015 – 31%) of accounts receivable. Management does not believe that this concentration of credit risk will result in any loss to the Company based on past payment experience. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with reputable and natural gas marketers. The Company does not obtain collateral from oil and natural gas marketers or others in the event of non-payment.

The carrying amount of the cash and cash equivalents, accounts receivable, deposits and restricted cash represents the maximum credit exposure. The Company manages the credit exposure to cash by selecting financial institutions with high credit ratings.

The Company has an allowance for doubtful accounts as at July 31 and January 31, 2015 of $nil and did not provide for any doubtful accounts nor write-off any accounts receivables during the periods ended July 31 and January 31, 2015.

c) Liquidity risk

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations (note 2). The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and global economic conditions.

The Company expects to satisfy obligations under accounts payable and amounts due to related parties, in less than one year through cash flows from operations and new financing. The timing of cash outflows relating to the financial liabilities is outlined below:

	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	$ 4,692,431	$ -	$ 4,692,431
Due to related parties (note 18)	1,515,418	-	1,515,418
Short term loan (note 10)	3,614,052	-	3,614,052
Debentures (note 11)	10,000,000	-	10,000,000
Note payable (note 12)	-	4,366,935	4,366,935
Total	**$19,821,901**	**$4,366,935**	**$24,188,836**

The Company's capital programs are primarily funded by cash obtained through operations, equity issuances, short term loans (note 10), debentures (note 11), and a financing deposit (note 12). During the years ended January 31, 2015 and January 31, 2014 Gordon Creek received funds from related parties (note 18) to assist in managing liquidity risk. The Company requires sufficient cash to fund capital programs necessary to maintain or increase production and develop reserves and to potentially acquire strategic assets. The Company will require additional equity or debt financing to enable it to generate sufficient cash flow from its oil and natural gas properties, attain profitable operations and pay its financial obligations when due (note 2). The Company is also subject to future commitments as disclosed in note 19.

d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net loss or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. Market risks are as follows:

i. Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company is exposed to foreign currency fluctuations on transactions conducted in foreign currencies other than the functional currency and in the carrying value of its U.S. subsidiaries upon translation to the Canadian presentation currency. The majority of the Company's revenues and expenses are translated and denominated in U.S. dollars as of July 31, 2015. If the Canadian Dollar had increased or decreased one per cent against the United States dollar with all other variables held constant, the effect on net loss for the year would have been insignificant (January 31, 2015 – $nil), while the effect on comprehensive loss for the period would increase or decrease approximately $189,000 (January 31, 2015 – $10,000).

The Company has the following financial instruments in USD as at:

	July 31, 2015	January 31, 2015
Cash	$ 741,094	$ 19,019
Restricted cash	120,000	120,000
Accounts receivable	57,452	162,253
Deposits	320,465	15,190
Accounts payable and accrued liabilities	2,357,324	2,536,242
Short term loan	3,000,000	-
Financing deposit	-	17,255,171
Note Payable	3,347,080	-

The Company had no forward foreign exchange rate contracts in place as at or during the periods ended July 31 and January 31, 2015.

ii. Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand.

(amounts in Canadian dollars)

The Company may enter into oil and natural gas contracts to protect its cash flow on future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. During fiscal 2015 and the three and six months ended July 31, 2015, the Company had no forward pricing contracts to mitigate the exposure to future commodity price fluctuations.

iii. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk as a result of the commodity linked interest rate on the debentures as described in note 11. This is classified as an embedded derivative with the fair value of $nil. A $0.50 increase in the future commodity price would have a nominal affect on interest expense given the short term maturity of the debentures. The Company has no interest rate hedges or swaps outstanding at July 31, 2015.

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital is to ensure that the Company and its subsidiaries will be able to continue as a going concern in order to pursue the exploration and development of its oil and natural gas properties and acquisitions while attempting to maximize the return to shareholders though the optimization of reasonable debt and equity balances commensurate with current operating requirements.

The capital structure consists of the following:

	July 31 2015	January 31 2015
Short term loan	$ 3,614,052	$ -
Debentures	10,000,000	10,000,000
Financing Deposit	-	21,943,402
Less: Cash	(968,928)	(27,118)
Net Debt[1]	12,645,124	31,916,284
Total Shareholders' Deficiency	867,575	(10,412,177)
Total Capitalization	**$ 13,512,699**	**$ 21,504,107**

[1] Net debt as calculated above is a non-IFRS measure and is not a standard term/measure used by others.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and/or debt and adjust its capital spending to manage current and projected debt levels.

(amounts in Canadian dollars)

17. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements include the following:

	Six months ended July 31, 2015	2014
Consulting fees paid or accrued to companies controlled by directors (included in general and administrative expense)	$ 53,655	$ 85,000
Consulting fees paid or accrued to companies controlled by officers (included in general and administrative expense)	15,00	28,350
General and administrative expenses reimbursed to companies with common directors	57,929	59,783

Amounts due to related parties includes $666,908 (January 31, 2015 - $644,691) due to officers and directors and companies with common directors and $nil (January 31, 2015 - $19,691) due from a company with common directors. Included in the debentures is $1,209,000 (January 31, 2015 - $1,209,000) (face value) held by related parties. Also included in amounts due to related parties, are loans from directors, officers and companies controlled by directors of the Company totalling $712,662 (January 31, 2015 - $773,015), plus accrued interest of $135,848 (January 31, 2015 - $90,071), received in May and August 2013 and May, June, July, August, October and November 2014 to cover costs and debenture interest payments. The loans are secured by promissory notes and by assets of the Company's U.S. subsidiary, due on demand and bear interest at 12% annually until repaid.

18. SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the changes in non-cash working capital as disclosed in the consolidated statement of cash flows:

	Six Months Ended July 31, 2015	2014
Operating activities		
Changes in non-cash working capital:		
Accounts receivable	$ 143,663	$ 21,737
Prepaid expenses and deposits	(306,048)	(28,168)
Accounts payable and accrued liabilities	3,303	(43,565)
	(159,082)	**(49,996)**
Financing activities		
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	**-**	**212,839**
Investing activities		
Changes in non-cash working capital:		
Prepaid expenses and deposits	(56,174)	-
Accounts payable and accrued liabilities	62,415	-
	6,241	
Interest paid	**-**	**-**

(amounts in Canadian dollars)

19. COMMITMENTS AND CONTINGENCIES

a) The cash portion of the interest payments on debentures have not been made for the quarters January 31, 2014 to July 31, 2015 totaling $1,434,932 and remains outstanding at September 29, 2015.

b) During the year ended January 31, 2014 statements of complaints aggregating approximately US$1,550,000 were filed against the Company by certain vendors of the Company. An additional complaint was filed during fiscal 2015 for approximately US$50,000. Certain of these statements of complaints also contain liens filed against certain wells of the Company's U.S. subsidiaries (note 8). At July 31, 2015 approximately US$1,285,000 (January 31, 2015 - US$1,345,000) remains of the aggregate total of statement of complaints, net of repayments, which have been included in accounts payable and accrued liabilities. Management believes that the statements of complaints will be resolved upon payment of these vendor's accounts owing and any additional amounts owing will be recorded on the period of settlement.

c) On April 29, 2015 a Statement of Claim was filed against the Company and its directors related to damages allegedly suffered by five shareholders of the Company as a result of the decline in the price of the Company's shares. Each shareholder alleges that they have suffered $150,000 in damages, for a total of $750,000. Subsequently the Company received an amended statement of claim for alleged total damages of $270,000. The Company has not yet filed a statement of defence in relation to the claim.

Management is of the opinion that the claim is without merit and that the Company has an arguable defence to the claim. Accordingly no accrual has been made in the consolidated financial statements to July 31, 2015.

20. FINANCE EXPENSES, NET

	July 31, 2015	July 31, 2014
Interest on debentures (note 11)	$ 495,890	$ 702,793
Interest on short term loan (note 10)	107,408	-
Interest on amounts due to related parties	45,777	-
Accretion on short term loan and transaction costs (note 10)	54,717	-
Accretion on decommissioning liabilities (note 13)	7,267	6,351
Interest income	(76)	(2,618)
	$ 710,983	**$ 706,526**

(amounts in Canadian dollars)

21. GEOGRAPHIC INFORMATION

The Company operates in two geographic regions, being Canada and the United States. The United States operations is primarily the acquisition and development of oil and natural gas properties and the production of oil and natural gas through participation agreements, while the Canadian operation is corporate support. The accounting policies of the regions are the same as those described in note 3.

	Canada	United States	Total
July 31, 2015			
Revenue	$ -	$ 343,620	$ 343,620
Property and equipment	-	23,903,927	23,903,927
July 31, 2014			
Revenue	$ -	$ 360,591	$ 360,591
Evaluation and exploration assets	-	250,389	250,389
Property and equipment	860	24,221,543	24,222,403