NORTH SEA ENERGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

NORTH SEA ENERGY INC.

Independent Auditor's Report

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To the Shareholders of North Sea Energy Inc.

We have audited the accompanying consolidated financial statements of North Sea Energy Inc. which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of North Sea Energy Inc. as at December 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which indicates the existence of material uncertainties that may cast significant doubt about North Sea Energy Inc.'s ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Signed "Grant Thornton LLP"

Mississauga, Canada
April 28, 2015

Chartered Accountants
Licensed Public Accountants

NORTH SEA ENERGY INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Presented in Canadian Dollars

As at December 31,	**2014**	2013
Current assets		
Cash (note 7)	**1,290,106**	3,484,565
Trade and other receivables (note 8)	**106,688**	245,288
Prepaid expenses	**25,794**	31,446
	1,422,588	3,761,299
Non-current assets		
Exploration and evaluation assets (note 9)	**1,193,409**	1,155,038
Office furniture and equipment (note 11)	**6,836**	8,592
Oil and gas properties (note 10)	**-**	7,612
	1,200,245	1,171,242
Total assets	**2,622,833**	4,932,541
Current liabilities		
Trade and other payables	**217,492**	562,116
Due to related parties (note 19)	**19,500**	386,000
Settlement payable (note 13)	**6,824,159**	-
Provisions (note 12)	**-**	2,339,920
	7,061,151	3,288,036
Non-current liabilities		
Convertible debentures (note 14)	**3,698,006**	3,465,161
Provisions (note 12)	**32,222**	32,222
	3,730,228	3,497,383
Total liabilities	**10,791,379**	6,785,419
Shareholders' deficiency		
Capital stock (note 15)	**19,330,721**	19,246,721
Contributed surplus	**2,159,767**	2,159,767
Equity component of convertible debenture (note 14)	**239,800**	239,800
Deficit	**(29,463,582)**	(23,376,332)
Translation reserve	**(435,252)**	(122,834)
	(8,168,546)	(1,852,878)
Total equity and liabilities	**2,622,833**	4,932,541

Going concern (note 2)
See accompanying notes to the consolidated financial statements

On behalf of the Board:

"J. Craig Anderson" (Director)

"Ian D. Lambert" (Director)

NORTH SEA ENERGY INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Presented in Canadian Dollars

For the year ended December 31,	**2014**	2013
REVENUE		
Oil production	**4,087**	2,131,616
EXPENSES		
Operating costs	**11,884**	2,134,575
Depletion, accretion and depreciation (note 4)	**10,139**	5,119,083
Compensation and consulting fees (note 4)	**554,952**	1,045,204
General and administrative costs (note 4)	**930,931**	1,262,159
Impairment charges (notes 9 and 10)	**222,856**	12,040,002
Gain on decommissioning provision (note 12)	**-**	(4,611,167)
	1,730,762	16,989,856
OPERATING LOSS	**(1,726,675)**	(14,858,240)
Foreign exchange gain	**211,687**	518,406
Interest and finance income	**5,566**	12,601
Interest and finance costs (note 4)	**(4,575,581)**	(99,368)
Abandonment expense	**(2,247)**	(30,276)
NON-OPERATING (LOSS)/ INCOME	**(4,360,575)**	401,363
LOSS BEFORE INCOME TAX	**(6,087,250)**	(14,456,877)
Income tax recovery (note 5)	**-**	-
NET LOSS FOR THE YEAR	**(6,087,250)**	(14,456,877)
OTHER COMPREHENSIVE LOSS		
Exchange loss on translation	**(312,418)**	(9,046)
TOTAL COMPREHENSIVE LOSS	**(6,399,668)**	(14,465,923)
NET LOSS PER SHARE (note 6):		
Basic and diluted	(0.103)	(0.247)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Presented in Canadian Dollars

	Issued and fully paid shares in $ (Note 15)	Contributed surplus	Equity portion of convertible debenture	Retained earnings (deficit)	Translation reserve	Total
Balance as at January 1, 2013	19,246,721	2,020,918	239,800	(8,919,455)	(113,788)	12,474,196
Net loss for the year	-	-	-	(14,456,877)	-	(14,456,877)
Exchange differences on translating foreign operations	-	-	-	-	(9,046)	(9,046)
Share-based payments (note 16)	-	138,849	-	-	-	138,849
Balance as at December 31, 2013	**19,246,721**	**2,159,767**	**239,800**	**(23,376,332)**	**(122,834)**	**(1,852,878)**
Balance as at January 1, 2014	19,246,721	2,159,767	239,800	(23,376,332)	(122,834)	(1,852,878)
Net loss for the year	-	-	-	(6,087,250)	-	(6,087,250)
Exchange differences on translating foreign operations	-	-	-	-	(312,418)	(312,418)
Issue of share capital (note 15)	84,000	-	-	-	-	84,000
Balance as at December 31, 2014	**19,330,721**	**2,159,767**	**239,800**	**(29,463,582)**	**(435,252)**	**(8,168,546)**

See accompanying notes to the consolidated financial statements

NORTH SEA ENERGY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Presented in Canadian Dollars

For the year ended December 31,	**2014**	2013
Increase (decrease) in cash		
OPERATING ACTIVITIES		
Cash provided by (used in) operations		
Net loss	**(6,087,250)**	(14,456,877)
Add (deduct): charges to income not involving cash		
Depreciation, depletion and accretion	**10,139**	5,119,083
Impairment charges	**222,856**	12,040,002
Share-based payments (note 16)	**-**	138,849
Gain on decommissioning provision (note 12)	**-**	(4,611,167)
Non-cash interest expense	**380,095**	388,235
Change in estimated cashflows of loan payable	**-**	(293,527)
Settlement payable and provision expense	**4,195,486**	-
Changes in non-cash working capital items:		
Trade and other receivables	**151,398**	114,353
Prepaid expenses	**5,919**	33,998
Trade and other payables	**(734,709)**	(65,887)
	(1,856,066)	(1,592,938)
FINANCING ACTIVITIES		
Issue of common shares (net of costs) (note 15)	**84,000**	-
Payment of cash coupon on convertible debentures (note 14)	**(147,250)**	(294,500)
	(63,250)	(294,500)
INVESTING ACTIVITIES		
Purchase of exploration and evaluation assets (note 9)	**(159,616)**	(812,380)
Proceeds on farm-out (note 9)	**-**	236,969
Purchase of oil and gas properties (note 10)	**-**	(1,028)
Purchase of office furniture and equipment (note 11)	**(771)**	(1,984)
Abandonment costs	**-**	(3,640)
	(160,387)	(582,063)
Effect of foreign exchange on cash	**(114,756)**	(292,134)
DECREASE IN CASH	**(2,194,459)**	(2,761,635)
CASH, beginning of the year	**3,484,565**	6,246,200
CASH, end of the year	**1,290,106**	3,484,565

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

North Sea Energy Inc. ("NSE" or the "Company") exists under the *Business Corporations Act* (Ontario) (the"OBCA") and is a Tier-1 publicly traded company on the TSX Venture Exchange under the symbol "NUK".

The Company is a UK focused oil and gas exploration and appraisal (E&A) company active in the United Kingdom's Continental Shelf ("UKCS"). Exploration and development activities are focused on the Inner Moray Firth and central areas of the UKCS.

The Company holds its oil and gas interests through its wholly owned subsidiaries, North Sea Energy (UK) Limited ("NSE UK"), North Sea Energy (UK NO2) Limited, Echo Exploration Limited and March Resources Ltd.

The head office, principal address and registered office of the Company are located at 36 Toronto Street, Suite 1170, Toronto, Ontario, M5C 2C5.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and settle its obligations in the normal course of business. At December 31, 2014, the Company has negative working capital of $5,638,563, primarily as a result of a $6,824,159 award recorded in December, 2014 resulting from an arbitration between the Company and Gemini Oil & Gas Fund II, L.P. ("Gemini"). The arbitration decision awarded US$5,820,907 against NSE and NSE UK plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The Company does not have adequate cash available, nor any ready source of funding, to settle the liability.

As a result, there is material uncertainty which casts significant doubt on the Company’s ability to continue as a going concern.

The Company is currently in negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. The Company has made a proposal which Gemini is evaluating and management will continue to work toward appropriate settlement of the award with Gemini. A settlement with Gemini may entail the sale of assets and/or an exchange of debt for shares. However, while management anticipates that the Company will be able to settle amounts with Gemini, there is no assurance that the Company will be successful in its negotiations.

These consolidated financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of North Sea Energy Inc. and its wholly owned subsidiaries, North Sea Energy (UK) Limited, North Sea Energy (UK NO2) Limited, Echo Exploration Limited and March Resources Ltd.

Subsidiaries are fully consolidated from the date of incorporation and amalgamation, being the date on which the Company obtained control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

(c) Significant accounting judgments and estimates

Estimates and assumptions

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions and could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

The most significant estimates relate to the following notes:

- Note 9 - Exploration and evaluation assets
- Note 12 - Provisions
- Note 14 - Convertible debentures
- Note 16 - Share-based payments

Judgements

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint arrangements

Judgement is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program for each year. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to Note 17 for more details.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess its rights and obligations arising from the arrangement. Specifically, the Company considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:
    - The legal form of the separate vehicle
    - The terms of the contractual arrangement
    - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Company's oil and gas properties. The Company estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of oil and gas development and production assets at December 31, 2014 is shown in Note 10.

The Company estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Company's reported financial position and results, which include:

- The carrying value of exploration and evaluation asset; oil and gas properties and property, plant and equipment may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement of comprehensive loss may change where such charges are determined using the units-of production ("UOP") method, or where the useful life of the related assets change;
- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the consolidated statement of comprehensive loss in the period when the new information becomes available.

Carrying value of oil and gas assets

Oil and gas properties are depleted using the UOP method over proven and probable mineral reserves.

The calculation of the UOP rate of depletion could be affected to the extent that actual production in the future is different from current forecast production based on proven and probable reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include:

- Changes in proven and probable reserves
- The effect on proven and probable reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes

The Company recognizes the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing and substantively enacted tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the amounts and ability of the Company to obtain tax deductions in future periods.

Provisions and contingencies

By their nature, the timing and ultimate amount of provisions and contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of provisions and contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Equity component of convertible debentures

The convertible debentures are classified as liabilities, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the liability being less than its face value. The discount is being accreted over the term of the debentures, utilizing the effective interest method which approximates the market rate at the date the debentures were issued. Management uses its judgment to determine an interest rate that would have been applicable to non-convertible debt at the time the debentures were issued.

(d) Interest in joint arrangements

Interests in joint arrangements

IFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

(i) Joint operations
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. In relation to its interests in joint operations, the Company recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Expenses, including its share of any expenses incurred jointly

(ii) Reimbursement of costs of the operator of the joint arrangement
When the Company, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

When the Company charges a management fee (based on a fixed percentage of total costs incurred for the year) to cover other general costs incurred in carrying out the activities on behalf of the joint arrangement, it is not acting as an agent. Therefore, the general overhead expenses and the management fee are recognised in the statement of comprehensive loss as an expense and income, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency which is the currency of the primary economic environment in which the Company operates. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position date and their income statements are translated at average exchange rate over the reporting period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the income statement.

(f) Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting, as follows:

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

During the geological and geophysical phase, costs are charged against income as incurred. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient and continued progress is made in assessing the commerciality of the hydrocarbons.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All such costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. If this is no longer the case, the costs are written off. When proved reserves of oil and gas are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Farm-outs - in the exploration and evaluation phase

The Company does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Development costs

Expenditure on the construction, installation or completion of infrastructure such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depletion and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The carrying value of oil and gas properties with proved reserves is reviewed periodically for impairment indicators and at least annually. Impairment will occur when the carrying amount of the oil and gas properties exceeds the higher of the discounted future cash flows expected to be derived from use of the oil and gas properties (value in use) and the fair value less costs to sell of these properties. The cash flows used to determine value in use will be those used on the Company’s latest approved budget. The impairment loss will be limited to the amount by which the carrying amount exceeds the higher of the value in use or the fair value of the oil and gas properties.

An item of oil and gas properties is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Comprehensive Loss.

The Company conducts an annual assessment of the residual balances, useful lives and depletion methods being used for oil and gas properties and any changes arising from the assessment are applied by the Company prospectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depletion

Oil and gas properties and facilities costs, net of estimated salvage values, are depleted using the unit-of-production method based on estimated proven and probable reserves of oil and gas as determined by independent engineers. For purposes of this calculation, proven and probable gas reserves and production are converted to equivalent volumes of crude oil based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Costs related to unproved properties are excluded from the calculation and are assessed separately for impairment.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

(g) Financial instruments and financial risk

The Company is exposed to a number of different risks arising from normal course business exposures, as well as the Company’s use of financial instruments. These risk factors include: (1) foreign currency risk and interest rate risk; (2) liquidity risk; and, (3) credit risk. The Company's board of directors (the "Board") has overall responsibility for the establishment and oversight of the Company’s risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; to set appropriate risk limits and controls; and to monitor risks and adherence to market conditions and the Company’s activities.

The Company determines the fair value of its financial instruments based on the following hierarchy:

LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an ongoing basis.

LEVEL 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data including recent arm’s-length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

LEVEL 3 – Valuations in this level are those with inputs that are not based on observable market data.

The Company does not have any financial instruments carried at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Financial assets are classified into one of the following four categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. The category determines subsequent measurements and whether any resulting income and expense is recognized in profit or loss or in comprehensive income for the period. All financial assets are initially recorded at fair value.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

All financial assets except those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The Company’s financial assets include cash and trade and other receivables.

Loans and receivables

Financial assets are classified as loans and receivables if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are carried at amortized cost using the effective interest rate method with gains and losses recognized when the asset is derecognized. The Company’s cash and trade and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence exists that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within “general and administrative costs”.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognized in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company has not designated any financial assets as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the statement of comprehensive loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities include trade and other payables, due to related parties and settlement payable. Financial liabilities are initially measured at fair value with subsequent measurement determined based on their classification as follows.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet hedge accounting criteria. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive loss. The Company has not designated any financial liabilities as at fair value through profit or loss and the Company does not have any derivative financial instruments.

Loans and borrowings

After initial recognition, interest bearing and non-interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive loss when the liabilities are derecognized as well as through the amortization process. The Company's trade and other payables, due to related parties and settlement payable fall into this category of financial instruments.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at its fair value of a similar liability that does not have an equity conversion option. The equity component, if any, is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Presented in Canadian Dollars

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized against equity, net of any tax benefit.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Fair value of financial instruments

The fair values of the Company's financial instruments are as follows:

	2014	2013
Financial Assets		
Loans and receivables:		
Cash	**1,290,106**	3,484,565
Trade and other receivables	**106,688**	245,288
	1,396,794	3,729,853
Financial Liabilities		
Loans and borrowings:		
Trade and other payables	**217,492**	562,116
Due to related parties	**19,500**	386,000
Convertible debentures	**3,698,006**	3,465,161
Settlement payable	**6,824,159**	-
	10,759,157	4,413,277

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning cost

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are initially recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the income statement as part of the "depletion, accretion and depreciation expense"**.** The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

(i) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time as the assets are substantially ready for their intended use, i.e. when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

(j) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities in respect to taxable profit or loss for the current or prior periods. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(k) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of discounts, rebates and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of oil

Revenue from sale of oil is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs at the point of delivery after metering.

Interest income

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable. Interest income is included in finance income in the income statement.

(l) Share-based payments

All goods and services received in exchange for the grant of any share-based payments are measured at the fair value of the goods or services received. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is determined at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of stock options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of stock options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if stock options ultimately exercised are different to that which vests.

Where terms of a share-based payment are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. Any additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of transaction.

(m) Cash

Cash in the statement of financial position comprise cash at banks and at hand.

(n) Equity and reserves

Share capital represents cumulative consideration received for shares that have been issued, net of appropriate adjustments.

Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Foreign currency translation differences arising on the consolidation of the Company's foreign entities are included in the translation reserve.

(Deficit)/Retained earnings include all current and prior period retained (losses)/ profits.

(o) New and amended standards and interpretations

As at January 1, 2014, the Company adopted the following standards:

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognized or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired assets is based on fair value less costs of disposal, including:

- additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made,
- discount rates used if fair value less costs of disposal is measured using a present value technique.

The Company assessed the effect of IAS 36 and determined that there is no material impact on the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRIC 21 Levies

IFRIC 21, Levies, is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, which sets out criteria for the recognition of a liability, one of which is the requirement for an entity to have a present obligation as a result of a past event. IFRIC 21 clarifies that:

- the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by the government's legislation. If this activity arises on a specific date within an accounting period then the entire obligation is recognized on that date
- the same recognition principles apply in the annual and interim financial statements.

The Company assessed the effect of IFRIC 21 and has determined that there is no material impact on the Company's consolidated financial statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

These amendments clarify the application of certain offsetting criteria in IAS 32, including:
- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement mechanisms may be considered equivalent to net settlement.

The Company assessed the effect of IAS 32 and determined that there is no material impact on the Company's consolidated financial statements.

(p) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization (see Note 22) of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted to the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2018. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Presented in Canadian Dollars

4. OPERATING PROFIT/(LOSS)

	2014	2013
DEPLETION, ACCRETION AND DEPRECIATION		
Depletion	**7,612**	5,101,250
Depreciation	**2,527**	2,565
Accretion	**-**	15,268
	10,139	5,119,083
COMPENSATION AND CONSULTING FEES		
Consulting fees	**348,940**	462,662
Directors fees	**206,012**	204,318
Performance compensation	**-**	239,375
Share-based payments	**-**	138,849
	554,952	1,045,204
GENERAL AND ADMINISTRATIVE		
Professional fees	**603,573**	795,028
Rent	**105,449**	103,615
Travel	**76,850**	109,284
Marketing and business development	**64,842**	142,945
Other	**30,013**	43,230
Regulatory fees	**22,303**	23,018
Meals and entertainment	**10,431**	18,723
Telecommunications	**10,096**	11,273
Engineering fees	**7,374**	15,043
	930,931	1,262,159
INTEREST AND FINANCE COSTS		
Settlement payable and provision (notes 12 and 13)	**4,195,486**	(303,968)
Interest and accretion of convertible debentures (note 14)	**380,095**	388,235
Loan interest	**-**	10,441
Finance costs	**-**	4,660
	4,575,581	99,368

Presented in Canadian Dollars

5. INCOME TAX

The Company's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to loss before income taxes as a result of the following:

	2014	2013
Substantively enacted tax rate	**26.50 %**	26.50 %
Expected recovery computed at the statutory rates	**(1,613,121)**	(3,831,100)
Tax rate differential	**(312,796)**	(228,600)
Permanent differences	**(1,077,775)**	(370,300)
Benefit of tax losses not recognized	**3,003,692**	4,430,000
Provision for income taxes	**-**	-

The enacted tax rates in Canada of 26.5% (26.5% - 2013) and United Kingdom of 30% (30% - 2013) where the Company operates are applied in the tax provision calculation.

As at December 31, 2014, the Company has UK non-capital losses of $24,630,000 that may be carried forward and applied against UK taxable income of future years. The non-capital loss may be carried forward without limitation.

As at December 31, 2014, the Company has Canadian non-capital losses of $12,544,000 that may be carried forward and applied against Canadian taxable income of future years. As a result of the reverse takeover transaction with Ranger Energy Ltd in 2011, the Company acquired March Resources Ltd; March Resources Ltd. has Canadian non-capital losses of $18,511,000 that may be carried forward and applied against Canadian taxable income of future years. The total Canadian non-capital losses have expiry dates as follows:

2015	31,000
2016	298,000
2027	1,256,000
2028	2,393,000
2029	1,152,000
2030	1,882,000
2031	19,215,000
2032	1,172,000
2033	2,557,000
2034	1,099,000
	$ 31,055,000

6. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	2014	2013
Net loss for the year	**(6,087,250)**	(14,456,877)
Weighted average number of shares for the purpose of basic earnings per share	**59,291,328**	58,531,876
Exercisable number of stock options (not dilutive)	**10,305,506**	11,230,559
Convertible debentures (not dilutive)	**8,444,444**	8,444,444
Weighted average number of shares for the purpose of diluted earnings per share	**59,291,328**	58,531,876
Basic and diluted loss per ordinary share	**(0.103)**	(0.247)

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as preference shares, outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the year, if dilutive.

7. CASH

Cash of the Company is comprised of bank balances and cash on hand. The Company's cash balances are denominated in the following currencies:

	2014	2013
Funds held in GBP expressed in Canadian dollars	**847,109**	2,588,061
Funds held in Canadian dollars	**419,838**	374,147
Funds held in US dollars expressed in Canadian dollars	**23,159**	522,357
	1,290,106	3,484,565

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Company only deposits cash surpluses with major banks of high quality credit standing.

Presented in Canadian Dollars

8. TRADE AND OTHER RECEIVABLEs

Trade receivables are non-interest bearing and are generally on 30-60 days terms. The Company anticipates full recovery of these amounts.

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2014.

9. EXPLORATION AND EVALUATION ASSETS

	2014	2013
Cost as at January 1,	1,155,038	15,422,215
Additions	159,616	812,380
Proceeds on farm-out of interest	-	(236,969)
Net exchange differences	101,611	564,417
Unsuccessful exploration expenditure derecognized	(222,856)	(15,407,005)
Cost as at December 31,	**1,193,409**	**1,155,038**
Net book value as at December 31,	**1,193,409**	**1,155,038**

The Company relinquished its interests in licence P. 1945, that contained Block 14/29b. The Company wrote off the capitalized costs related to these blocks as an impairment charge and derecognized the costs of all unsuccessful exploration expenditures.

10. OIL AND GAS PROPERTIES

	2014	2013
Cost as at January 1,	18,890	20,226,412
Additions	-	1,028
Change in decommissioning provision	-	3,176,994
Disposals	-	(24,096,735)
Net exchange difference	-	711,191
Cost as at December 31,	**18,890**	**18,890**
Accumulated depletion and impairment as at January 1,	11,278	18,360,871
Depletion for the year	7,612	5,101,250
Disposals	-	(24,096,735)
Net exchange difference	-	645,892
Accumulated depletion and impairment as at December 31,	**18,890**	**11,278**
Net book value as at December 31,	**-**	**7,612**

Presented in Canadian Dollars

11 . OFFICE FURNITURE AND EQUIPMENT

	2014	2013
Cost as at January 1,	29,371	28,257
Additions	771	1,984
Disposals	-	(870)
Cost as at December 31,	**30,142**	**29,371**
Accumulated depreciation as at January 1,	20,779	19,084
Depreciation charge for the year	2,527	2,565
Disposals	-	(870)
Accumulated depreciation as at December 31,	**23,306**	**20,779**
Net book value as at December 31,	**6,836**	**8,592**

12. PROVISIONS

	2014	2013
Provision for Gemini loan, beginning of year	**2,339,920**	2,189,000
Reclassification of provision during the year (Note 13)	**(2,506,680)**	-
Foreign currency movement	**166,760**	150,920
	-	2,339,920
Decommissioning costs:		
Balance as at January 1,	**32,222**	1,400,998
Increase in provision for abandonment	**-**	3,179,475
Disposition of assets	**-**	(4,611,167)
Accretion	**-**	15,268
Foreign currency movement	**-**	47,648
Balance as at December 31,	**32,222**	32,222
Total provisions	**32,222**	2,372,142

Gemini loan provision

The Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") were in arbitration regarding the loan agreement signed September 8, 2008 from November, 2011 to December, 2014. While the Company was in arbitration, the Company recorded a provision at its best estimate as a provision to settle the disputed amount. On December 2, 2014, the Company received the final decision by the arbitrator awarding against NSE and NSE UK the amount of US$5,820,907 plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The arbitrator ordered that each party bear its own legal costs and that half of the costs of the arbitration be paid by each party. Therefore, the Company has reclassified the amount as payable from a provision. The Company is currently in negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award.

Presented in Canadian Dollars

12. PROVISIONS (CONTINUED)

Decommissioning costs

The estimated provision for decommissioning costs is based on management assumptions, based on the current economic environment, which they believe to be reasonable to estimate the future liability. The estimate is reviewed regularly for any material changes to these assumptions. However, the actual decommissioning cost will ultimately depend upon future market prices for the necessary decommissioning work. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

13. SETTLEMENT PAYABLE

The Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") were in arbitration regarding the loan agreement signed September 8, 2008 from November, 2011 to December, 2014. While the Company was in arbitration, the Company recorded a provision at its best estimate as a provision to settle the disputed amount. On December 2, 2014, the Company received the final decision by the arbitrator awarding against NSE and NSE UK the amount of US$5,820,907 plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The arbitrator ordered that each party bear its own legal costs and that half of the costs of the arbitration be paid by each party. Therefore, the Company has reclassified the amount as payable from a provision. The Company is currently in negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award.

	2014	2013
Balance as at January 1,	**-**	-
Settlement payable - arbitration final award	**6,632,341**	-
Interest expense included in loss for the year	**69,825**	-
Foreign currency movement	**121,993**	-
Balance as at December 31,	**6,824,159**	-

14. CONVERTIBLE DEBENTURES

The following table summarizes the changes in the liability and equity components of the convertible debentures during the years ended December 31, 2014 and 2013:

	2014	2013
Liability component		
Balance as at January 1,	3,465,161	3,371,426
Interest expense	294,500	308,008
Accretion	85,595	80,227
Payment of cash coupon	(147,250)	(294,500)
Balance as at December 31,	**3,698,006**	**3,465,161**

Presented in Canadian Dollars

14. CONVERTIBLE DEBENTURE (CONTINUED)

	2014	2013
Equity component		
Balance as at January 1,	239,800	239,800
Issuance of convertible debentures (net of costs)	-	-
Balance as at December 31,	**239,800**	**239,800**

On November 22, 2012, the Company completed a private placement of unsecured convertible debentures in the amount of $3,800,000 (the "Debentures"). The subscription price per Debenture is $1,000 with an interest rate of 7.75% payable semi-annually, for a term of five years from the issue date. The Debentures are convertible into common shares at the holder`s option at any time after four months from the date of issuance at a price of $0.45 per common share of the Company. The Company may elect to convert the Debentures on each anniversary date of the date of issuance of the Debentures at a price of $0.45 per common share. The Company shall have the right at any time after December 1, 2015 to repay all or a portion of the Debentures without the consent of the holders, subject to the right of the holders to convert prior to such repayment. The Debentures were subject to a hold period expiring on March 23, 2013. The Company paid a finder`s fee equal to 5% of the gross proceeds of the private placement.

The liability component of the Debentures was calculated, at the date of issuance, as the present value of the principal and interest, at a rate approximating the interest rate that would have been applicable to non-convertible debt at the date the Debentures were issued. The liability component was recorded at amortized cost and accreted to the principal amounts over the term of the convertible debentures by charges to interest expense using an effective interest rate of 11.06%. The initial carrying value of the liability component is $3,326,304 which is net of $218,168 of issuance costs.

The carrying value of the conversion option, $239,800, which is net of issuance costs of $16,555 has been recorded as a separate component in shareholders` equity.

On November 26, 2014, the Company reached an agreement with the holder of the $3,800,000 convertible debenture of the Company. The holder has agreed to defer interest payable (including the interest payment that was due on November 22, 2014) and all future interest payments payable by the Company to the holder, until the Company has received and closed a minimum of $2,500,000 of financing. This financing is to be arranged by Deer Creek Capital, a company associated with one of NSE's directors. The Company for its part has agreed not to exercise its Debenture conversion option as of November 22, 2014.

If by July 1, 2015 such financing is not received by the Company, the deferred interest payments (November 22, 2014 and May 22, 2015) shall be cancelled and no amount shall be payable by the Company to the holder with respect thereto. In addition, the Company may exercise the Company conversion option within ten business days of July 1, 2015 at the conversion price ($0.45 per common share).

Presented in Canadian Dollars

15. CAPITAL STOCK

(a) Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

(b) Issued common shares

	Common shares	
	Number of shares	**Amount $**
Balance, as at January 1, 2013	58,531,876	19,246,721
Balance, as at December 31, 2013	58,531,876	19,246,721
Shares issued	763,636	84,000
Balance, as at December 31, 2014	59,295,512	19,330,721

In January, 2014, the Company issued 763,636 shares to EnCounter Oil Limited ("EnCounter") at $0.11 per share pursuant to its subsidiary's joint-bidding agreement between EnCounter and North Sea Energy (UK NO2) Limited for obtaining North Sea UKCS licences.

16. SHARE - BASED PAYMENTS

On October 13, 2011, The Company's Board of Directors approved a stock option plan, as amended on June 6, 2012, enabling officers, directors and consultants to purchase common shares at an exercise price that shall be fixed by the Board at the time that the option is granted. No option shall be granted with an exercise price at a discount to the market price. The “market price” shall be the closing price of the Shares on the Exchange on the first day preceding the date of grant on which at least one board lot of Shares traded. Once the exercise price has been determined by the Board, accepted by the Exchange and the option has been granted, the exercise price of an option may be reduced upon receipt of Board approval, provided that in the case of options held by insiders of the Company (as defined in the policies of the Exchange), the exercise price of an option may be reduced only if disinterested shareholder approval is obtained.

The number of shares reserved for the plan is 11,706,371 (being 20% of the common shares issued on the date the plan was approved).

Presented in Canadian Dollars

16. SHARE - BASED PAYMENTS (CONTINUED)

A summary of the status of the Company's stock option plan as at December 31, 2014 and December 31, 2013 and changes during each fiscal period is presented below:

	Number of options	Weighted average exercise price $
Outstanding at January 1, 2013	10,300,716	0.40
Granted	1,050,000	0.23
Expired	(357,676)	0.98
Outstanding at December 31, 2013	10,993,040	0.37
Granted	-	-
Expired	(1,560,081)	0.32
Outstanding at December 31, 2014	9,432,959	0.38

The following table summarizes stock options outstanding and exercisable under the Plan:

Exercise prices	Number outstanding	Weighted average years to expiry	Number Exercisable
2.00	167,500	0.25	167,500
0.80	475,000	1.82	475,000
0.33	7,890,459	3.06	7,890,459
0.23	900,000	3.01	900,000
	9,432,959	2.94	9,432,959

The Company accounts for its share-based payments at fair value. During the year, the Company recognized share-based payments expense of $Nil(2013 - $138,849). These amounts were credited to contributed surplus.

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model. For the years ended December 31, 2014 and 2013 the resulting fair value and the assumptions used were as follows:

	2014	2013
Weighted average fair value, per option ($)	-	0.1349
Weighted average risk-free interest rate (%)	-	1.11
Weighted average volatility (%)	-	71.68
Expected life (years)	-	5
Dividend yield (%)	-	0
Expected forfeiture (%)	-	2

The risk-free interest rate is based on the rate at the time of grant for a Canadian savings government bond with a remaining term equal to the expected term of the option. The expected term is based on the term of the option and projected exercise and forfeiture rates. The expected volatility is based on an estimate of historical industry volatility relative to similar companies in the same industry over the same time period as the legal life of the options because the Company's shares did not have sufficient history in the public market.

Presented in Canadian Dollars

17. INTERESTS IN JOINT ARRANGEMENTS

Farm-out arrangement

During the year ended December 31, 2013, the Company, through its wholly owned subsidiary, North Sea Energy (UK NO2) Limited, entered into a farm-in agreement with Maersk Oil North Sea UK Limited ("Maersk Oil") to participate in the initial exploration and appraisal of the Company's UK North Sea blocks 13/24c and 13/25 ("Bagpuss Prospect").

Under the farm-in agreement, Maersk Oil is to carry 100% of NSE's costs, subject to a cap, to drill the initial Bagpuss Prospect exploration well including a site survey and agreed past costs. In addition, Maersk Oil is to carry 50% of NSE's costs, subject to a cap, on a Bagpuss appraisal well should one be drilled. In return, Maersk Oil acquired a 25% working interest and NSE retained a 15% working interest in blocks 13/24c and 13/25.

Interests in jointly controlled assets and operations

As at December 31, 2014 North Sea Energy (UK NO2) Limited has working interests in the following UKCS licences:

Licence	Block	Working Interest	Operator/Administrator	Licence Type
P.1887	12/16b and 12/17b	20%	First Oil Expro Limited	Traditional
P.1943	13/24c and 13/25	15%	Premier Oil	Promote
P.2095	18/10a	40%	EnCounter Oil	Promote
P.2096	19/2 and 19/3	40%	EnCounter Oil	Promote

During the year, North Sea Energy (UK NO2) Limited had a 40% working interest in a promote license, P.1945 (the "Cloud" or "Block(s) 14/29b"). Cloud is a promote license that expired in December, 2014.

Summarized financial statement information for the Company's share of joint operations included in the consolidated financial statements, is disclosed below:

	2014	2013
Current assets	**79,557**	186,281
Non-current assets	**1,193,409**	1,162,650
Total assets	**1,272,966**	1,348,931
Current liabilities	**118,088**	208,565
Non-current liabilities	**-**	-
Total liabilities	**118,088**	208,565
Revenue	**4,087**	2,131,616
Operating costs	**11,884**	1,999,639

The aggregate of the Company`s firm commitments through joint operations as at December 31, 2014 is approximately $25,600.

Presented in Canadian Dollars

18. SEGMENTED INFORMATION

The Company has three wholly owned subsidiaries in the United Kingdom. All operating activities are related to exploration, development and production of oil and natural gas assets.

			2014	2013
Revenue				
Canada			**4,087**	8,291
United Kingdom			**-**	2,123,325
Total group revenue			**4,087**	2,131,616
Group operating loss				
Canada			**(837,687)**	(1,861,572)
United Kingdom			**(888,988)**	(12,996,668)
Group operating loss	**Canada**	**UK**	**(1,726,675)**	(14,858,240)
Foreign exchange gain from operations	(2,111)	213,798	**211,687**	518,406
Interest and finance income	4,841	725	**5,566**	12,601
Interest and finance costs	(380,095)	(4,195,486)	**(4,575,581)**	(99,368)
Abandonment costs	(2,247)	-	**(2,247)**	(30,276)
Loss before income tax			**(6,087,250)**	(14,456,877)
Operating costs				
Canada			**11,884**	10,391
United Kingdom			**-**	2,124,184
Total cost of sales			**11,884**	2,134,575
Depletion, accretion and depreciation				
Canada			**10,139**	5,381
United Kingdom			**-**	5,113,702
Total depletion, accretion and depreciation			**10,139**	5,119,083
Income tax recovery				
Canada			-	-
United Kingdom			**-**	-
Total income tax recovery			**-**	-

Presented in Canadian Dollars

18. SEGMENTED INFORMATION (CONTINUED)

	2014	2013
Non-current assets		
Canada	**6,836**	16,203
United Kingdom		
Oil and gas properties	**-**	-
Exploration and evaluation assets	**1,193,409**	1,155,038
Total non-current assets	**1,200,245**	1,171,242
Total assets		
Canada	**473,609**	462,504
United Kingdom	**2,149,224**	4,470,037
Total assets	**2,622,833**	4,932,541
Total liabilities:		
Canada	**3,839,142**	3,992,333
United Kingdom	**6,952,237**	2,793,086
Total liabilities	**10,791,379**	6,785,419

19. RELATED PARTY DISCLOSURES

Compensation of key management personnel of the Company

For the year ended December 31, 2014, the Company incurred expenditures of $642,976 (2013 - $1,289,567) to companies controlled by directors of the Company, for management consulting services, directors services, share issuance costs and share-based payments to key management personnel as set out in the table below:

	2014	2013
Management, consulting and fees earned by directors	**642,976**	1,173,860
Share-based payments	**-**	115,707
	642,976	1,289,567

The balance outstanding as of December 31, 2014 is $19,500 (2013 - $386,000). The amount due to related parties is unsecured and was fully paid on January 20, 2015.

Presented in Canadian Dollars

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

The Company’s activities expose it to a variety of financial risks including: market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Company’s primary financial risk management objective is to ensure that the financial performance of the Company is not subject to the material negative impact of unmanaged risk.

Foreign exchange risk

The Company operates primarily in Canada and the United Kingdom. The functional and reporting currency of the parent company is Canadian dollars. The functional currency of the UK subsidiaries is the US dollar. Foreign exchange risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates (“transaction exposures”) and because the non-Canadian dollar denominated financial statements of the Company's subsidiaries may vary on revaluation into the Canadian dollar reporting currency (“translation exposures”).

The Company’s operations are exposed to exchange rate changes in the U.S. dollar and British Pound to the Canadian dollar. As of December 31, 2014 and 2013, fluctuations of +/- 5% would, everything else being equal, have had an effect of approximately $34,682 on earnings before income taxes in 2014 and $111,631 in 2013. The Company has not entered into arrangements to hedge its foreign currency risk.

Interest rate risk

The Company’s exposure to interest rate risk is related to the Gemini's settlement payable, whereby if LIBOR increases the ultimate amount payable may increase as well. The Company's cash balances earn nominal interest and convertible debentures are fixed (effective) rate instruments and are not subject to fluctuations in interest risk. The Company has no other loans subject to interest rate risk.

Credit risk

The Company’s financial assets that are exposed to credit risk consist primarily of cash and trade and other receivables. The carrying value of financial assets represents the Company’s maximum credit exposure as follows:

	2014	2013
Cash	**1,290,106**	3,484,565
Trade and other receivables	**106,688**	245,288
Total	**1,396,794**	3,729,853

The Company mitigates this credit risk by dealing with counterparties who are major financial institutions and monitoring credit exposure on trade and other receivables.

Presented in Canadian Dollars

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

The following are the undiscounted contractual maturities of financial liabilities as at **December 31, 2014**:

	Carrying amount	Less than 1 year	1 to 2 years	After 2 years
Trade payables	217,492	217,492	-	-
Due to related parties	19,500	19,500	-	-
Convertible debenture*	3,698,006	294,500	294,500	4,241,750
Settlement payable**	6,824,159	6,824,159	-	-
Total	10,759,157	7,355,651	294,500	4,241,750

*As per the agreement reached on November 26, 2014 between the Company and the holder of the $3,800,000 convertible debenture, the interest payments for November 22, 2014 and May 22, 2015 are deferred until the Company has received and closed a minimum of $2,500,000 of financing. This financing is to be arranged by Deer Creek Capital, a company associated with one of NSE's directors. If by July 1, 2015 such financing is not received by the Company, the deferred interest payments shall be cancelled and no amount shall be payable by the Company to the holder with respect thereto. In addition, the Company may exercise its conversion option within ten business days of July 1, 2015 at the conversion price ($0.45 per common share).

**The Company is currently in negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. If the negotiations succeed, the Company's current cash reserves will be sufficient to operate the Company for the next twelve months. If these negotiations fail and Gemini demands payment, the Company will seek court protection.

The following are the undiscounted contractual maturities of financial liabilities as at **December 31, 2013:**

	Carrying amount	Less than 1 year	1 to 2 years	After 2 years
Trade payables	562,116	562,116	-	-
Due to related parties	386,000	386,000	-	-
Convertible debenture	3,465,161	294,500	294,500	4,389,000
Total	4,413,277	1,242,616	294,500	4,389,000

Presented in Canadian Dollars

21. CAPITAL MANAGEMENT

The Company's objectives of capital management are intended to safeguard its ability to support the Company's normal operating requirements on an ongoing basis, continue to enhance the value of its current oil and gas projects and fund future exploration and evaluation opportunities.

The capital of the Company consists of the items included in shareholders' equity and debt obligations net of cash. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust its capital structure, the Company may issue new shares, issue new debt or issue new debt to replace existing debt with different characteristics.

To effectively manage its capital investments, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

The Company expects its current capital resources, future equity and debt financing to support its exploration and appraisal activities, subject to the liquidity risks discussed in Note 20 of these financial statements and the successful resolution of the Gemini negotiations.

Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

Capital for the reporting periods under review is summarized as follows:

	2014	2013
Total shareholders' deficiency	**(8,168,546)**	(1,852,878)
Total liabilities	**10,791,379**	6,785,419
Cash	**(1,290,106)**	(3,484,565)
Capital	**1,332,727**	1,447,976

22. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2014 and 2013 were authorized for issue by the Board on April 28, 2015.