AZABACHE
Energy Inc.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 2015
(unaudited)

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 consolidated interim financial statements for the three month and nine month periods ended March 31, 2015 and 2014

Azabache Energy Inc.

Condensed Consolidated Interim Statements of Financial Position

(in Canadian dollars)
(unaudited)

	March 31, 2015	June 30, 2014
Assets		
Current		
Cash and cash equivalents	$ 1,207,844	$ 681,334
Accounts receivable	286,437	159,766
Prepaid expenses and deposits	380,986	134,226
	1,875,267	975,326
Restricted cash (Note 3)	1,615,813	3,250,303
Exploration and evaluation assets (Note 4)	19,668,047	16,878,312
Property and Equipment	152,115	164,600
	$ 23,311,242	$ 21,268,541
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,404,389	$ 1,635,238
Loan payable (Note 5)	433,822	-
	1,838,211	1,635,238
Long term debt (Note 5)	5,887,379	-
Decommissioning provisions (Note 6)	1,923,532	1,402,202
	9,649,122	3,037,440
Shareholders' Equity		
Share capital (Note 10)	80,688,263	80,215,263
Contributed surplus	5,863,113	5,312,067
Accumulated other comprehensive loss	(3,907,489)	(5,726,807)
Deficit	(68,981,767)	(61,569,422)
	13,662,120	18,231,101
	$ 23,311,242	$ 21,268,541

On behalf of the Board

(Signed) " Glenn Van Doorne"
Director
(Signed) "Claudio Larotonda"
Director

Azabache Energy Inc.

Consolidated Statements of Operations and Comprehensive Loss

(in Canadian dollars)
(unaudited)

	3 months ended March 31		9 months ended March 31	
	2015	2014	**2015**	2014
Expenses				
Management and consulting fees	$ 149,043	$ 243,343	$ 511,432	$ 667,795
Salaries	513,961	359,123	1,191,448	1,233,210
Stock-based compensation	192,115	128,495	551,046	553,348
Travel	87,870	120,356	281,349	287,366
General and administration	683,357	172,275	1,227,448	673,121
Shareholder information	27,177	20,588	50,889	37,937
Professional fees	65,880	65,673	233,269	238,601
Interest income	(11,002)	-	(58,214)	-
Finance cost	204,414	3,382	359,875	101,683
Depreciation	(3,736)	19,477	13,611	62,641
Foreign Exchange (gain) loss	474,209	2,588	558,900	(374,299)
Impairment of E&E assets	2,341,496	-	2,491,290	-
Net loss for the period	4,724,785	1,135,300	7,412,344	3,481,403
Exchange translation on foreign operations	(1,449,024)	602,885	(1,819,318)	2,028,734
Comprehensive (income) loss	$ 3,275,760	$ 1,738,185	$ 5,593,026	$ 5,510,137
Loss (income) per share	$0.03	$0.01	$0.04	$0.02
Weighted average number of shares				
Basic and diluted	187,117,399	173,312,388	180,557,109	155,087,984

Azabache Energy Inc.

Consolidated Statements of Cash Flows

(in Canadian dollars)
(unaudited)

	3 months ended March 31		9 months ended March 31	
Cash provided by (used in):	2015	2014	2015	2014
Operations				
Net income (loss)	$ (4,724,785)	$ (1,135,300)	$ (7,412,344)	$ (3,481,403)
Add depreciation	(3,736)	19,477	13,611	62,641
Add share based compensation	192,115	128,495	551,046	553,348
Accretion of loan liability	-	12,163	-	42,570
Add provisions for ARO	371,535	37,149	521,330	129,113
Add provision for Colombian assets	2,261,599	-	2,261,599	-
Add loss on foreign exchange	1,650,158	(639,134)	1,827,173	400,017
Deduct changes in current assets	(110,100)	108,690	(373,431)	(46,603)
Add changes in current liabilities	340,940	44,823	202,972	179,648
	(22,274)	(1,423,637)	(2,408,045)	(2,160,669)
Investing				
Exploration Expenses	(1,351,644)	(1,054,859)	(5,051,335)	(1,552,238)
Acquisition of fixed assets	2,776	(3,901)	(1,126)	(5,590)
	(1,348,868)	(1,058,760)	(5,052,460)	(1,557,828)
Financing				
Decrease in restricted cash	542,217	16,134	1,634,490	288,646
Issued Convertible Loan	346,240	-	4,058,560	-
Issued Shareholder Loans	828,819	-	1,828,819	-
Issued common shares	473,000	568,971	473,000	3,861,746
	2,190,276	585,105	7,994,869	4,150,392
Effect of foreign exchange on cash	(10,772)	(246,033)	(7,854)	(240,481)
Change in cash balances	808,361	(2,143,325)	526,510	191,414
Opening cash balance	399,482	4,561,568	681,334	2,226,829
Closing cash balance	1,207,844	2,418,243	1,207,844	2,418,243

Azabache Energy Inc.

Condensed Consolidated Interim Statement of Changes in Equity

(in Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at June 30, 2013	$ 76,003,517	$ 4,444,012	$ (3,288,436)	$ (55,849,725)	$ 21,309,368
Loss for the period	-	-	-	(5,719,697)	(5,719,697)
Share-based payments	-	868,055	-	-	868,055
Other comprehensive loss	-	-	(2,438,371)	-	(2,438,371)
Private placement	3,972,299	-	-	-	3,972,299
Cost of share issuance	(110,553)	-	-	-	(110,553)
Loan conversion	350,000	-	-	-	350,000
Balance at June 30, 2014	80,215,263	5,312,067	(5,726,807)	(61,569,422)	18,231,101
Loss for the period	-	-	-	(7,412,345)	(7,412,345)
Share-based payments	-	551,046	-	-	551,046
Other comprehensive loss	-	-	1,819,318	-	1,819,318
Shares issued	473,000				473,000
Balance at March 31, 2015	$ 80,688,263	$ 5,863,113	$ (3,907,489)	$ (68,981,767)	$ 13,662,120

Azabache Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements For the nine months ended March 31, 2015 (in Canadian dollars) (unaudited)

1. **Corporate Information:** Azabache Energy Inc. ("Azabache" or "the Company") is incorporated under the Canada Business Corporations Act. The Company is an exploration stage entity. Its principal business activity is to pursue oil and gas exploration opportunities in South America, primarily in Argentina and Colombia. The Company is listed on the TSX Venture Exchange, having the symbol AZA, as a Tier 2 oil and gas issuer.

2. **Basis of Preparation:**

Going Concern: While these condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will realize assets and discharge liabilities in the normal course of operations for the foreseeable future, there are events and conditions that raise significant doubt on the validity of this assumption. During the nine months ended March 31, 2015 the Company had a comprehensive loss of $5,593,026 and, as at that date, had an accumulated deficit of $68,981,767. Presently, Azabache has no production. At March 31, 2015 the Company had working capital of $37,056 and management estimates that it presently does not have adequate working capital to fund all of its planned activities for the remainder of this fiscal year. These matters indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue to meet its obligations as they become due. The Company currently relies on equity financing and farming out interests in its properties to other companies to maintain its ongoing exploration programs and property commitments and for administrative purposes. Due to recent government decrees from the Argentine government, there is considerable uncertainty with respect to the investment climate in that country. Since the majority of the Company's planned activities and operations are in Argentina, this uncertainty may impair the ability of the Company to raise additional equity funding or to secure suitable arrangements with other companies to develop its properties. The Company's ability to continue operations is dependent on its ability to secure this additional funding. Management's plan is to enter into arrangements with other companies to jointly develop its properties and to raise additional equity as required. The success of these initiatives cannot be assured. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption were deemed to be inappropriate. These adjustments could be material.

Statement of Compliance: The Company prepares its financial statements in accordance with International Accounting Standard ("IAS") *34 Interim Financial Reporting*. These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended June 30, 2014. The disclosures below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended June 30, 2014. The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on June 1, 2015.

Basis of Measurement: These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair value. The condensed consolidated interim financial statements are presented in Canadian dollars, unless otherwise indicated, which is the Company's functional and presentation currency. The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates and judgment used in the preparation of the financial statements are described in Note 4 to the Company's consolidated annual financial statements for the year ended June 30, 2014.

3. **Restricted Cash:** Restricted cash consists of term deposits held as security for stand-by letters of credit or as guarantees related to the Company's exploration and evaluation assets.

4. **Exploration and Evaluation Assets:** The Company operates three blocks in Argentina; El Corte, Covunco and Loma El Divisadero. In December 2014, the Company received official decrees from the Province of Neuquen to continue the development of El Corte and Covunco over the next five years subject to meeting certain exploration milestones related to drilling new wells, fracture stimulations and 3D seismic. The Company estimates that the costs of these activities will be approximately $60 million over the next three years.

   On May 20, 2015, the Company announced that it had entered into an agreement with an independent third party to take over the Company's future liabilities in Colombia related to its branch, the La Mona project and the Antares project. As a result of this cashless transaction, the Company took a provision of $2,261,599 for the net book value of the assets in Colombia. Following this transaction, the Company no longer has any assets or liabilities in Colombia and is focused only on developing its oil and gas properties in Argentina.

5. Loans Payable:

RBE Loan Agreement:

On July 25, 2014, RBE and the Company entered into a Termination and Mutual Release Agreement ("Termination Agreement") and a Loan Agreement. Under the Termination Agreement, Azabache and RBE agree to the early termination of the PA. As part of the Termination Agreement, RBE paid US$1,100,000 to the Company.

On the same date, the Parties entered into a Loan Agreement whereby the entire amount paid by RBE under the PA and the Termination Agreement was converted to a convertible loan from RBE to Azabache. Provisions of the Loan Agreement include:

- Principal amount - US$3,200,000
- Interest rate – 6% per annum
- Maturity date – July 25, 2017
- Pre-Payment - Azabache is entitled to pre-pay the principal amount plus accrued interest at any time. The Company agrees to pre-pay US$1,000,000 if it completes a financing that result in net proceeds in excess of US$15,000,000 or a farm-out of any assets, which includes a cash payment in excess of US$5,000,000.
- Conversion Rights - subject to TSX Venture Exchange ("TSXV") and shareholder approval, if required, Azabache may convert the principal plus interest into Common Shares of the Company at any time after April 21, 2015, subject to TSX Venture Exchange and shareholder approval..
- Conversion Price – the greater of the volume-weighted average trading price of the Common Shares for a 30-day period prior to conversion or the "Market Price" as defined by the TSXV.

Shareholder loans:

In January 2015, the Company closed a series of loans with existing shareholders in the principal amount of $2,365,000, maturing in June 2016. The loans were sold at a discount of 6.977% and bear interest of 4% payable monthly. The loan holders received bonus shares equal to 4 shares for every $1 of face value. The Company issued 9,460,000 common shares as part of the transaction.

Repurchase Agreement:

On March 31, 2015, the Company entered into an agreement with a financial institution to resell a portion of its inter-company loan with Argenta Energia S.A. at a 4% discount.

6. Decommissioning Provision

The Company estimates that, at March 31, 2015, the total undiscounted cash flows required to settle its decommissioning obligation is approximately $3,500,000. The majority of the costs are expected to be incurred between 2018 and 2021. The decommissioning obligation has been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

7. Share Capital and Reserves

Capital Stock

(a) Authorized

Unlimited number of common shares without par value Unlimited number of voting special shares

(b) Issued

Common Shares Number

Balance issued at March 31, 2015 – 187,117,399

In January 2015, as part of a shareholder loan package, the Company issued 9,460,000 shares with a nominal value of $0.05 per share.

8. Share-Based Payments

(a) Option Plan Details

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferrable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. Under the Plan the maximum number of Common Shares reserved for issue shall not exceed, in aggregate, 10 percent of the number of Common Shares outstanding. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to ten years. Vesting of the options is dependent on either the Company meeting certain stock price performance goals or the individual meeting certain job performance criteria. As at March 31, 2015, the Company had 8,890,740 (June 30, 2014 – 6,934,858) options available for issuance under the plan.

A summary of stock options outstanding at December 31, 2014 is as follows:

Exercise Price Number

700,000 shares @ $0.33

300,000 shares @ $0.68

7,875,000 shares @ $0.13

Expenses Arising from Share-Based Payment Transactions

Share based payment expense related to stock options recognized during the six months ended March 31, 2015 was $551,046 (nine months ended March 31, 2014 - $553,348).

10. Segmented Information

The Company is in the business of oil and gas exploration in Argentina. All of the Company's assets and liabilities in Colombia have been disposed of. Therefore, the Company no longer has any segmented information as the only operating unit is in Argentina. The Canadian corporation is a holding company.

11. Capital Management

The Company’s objectives when managing capital are:

- to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders; and

- to maintain a flexible capital structure, which optimizes the cost of capital, at an acceptable risk. The capital structure of the Company is currently defined as shareholders’ equity, which is comprised of share capital, contributed surplus and deficit. 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 assets. To maintain or adjust the capital structure, the Company, subject to approval of the Board of Directors, may attempt to issue new shares, issue new debt or acquire or dispose of assets. The Company is not exposed to externally imposed capital restrictions and has no debt facilities. The Company will use its existing capital resources and, if available, future equity issues, farmouts and asset sales to meet its financial commitments, including planned exploration on its properties and administrative expenditures. The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

12. Financial Instruments and Financial Risk Management

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

a. **Credit Risk:** The Company is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, accounts receivable and certain of its deposits. Cash and cash equivalents and restricted cash are held with highly rated Canadian and international banks or government institutions, and therefore the Company does not believe these financial instruments are subject to material credit risk. The Company’s accounts receivable are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations and are subject to normal industry credit risk. The carrying amounts of these items represent the Company’s maximum credit exposure. The Company has no past due accounts receivable that are not provided for.

b. **Interest Rate Risk**: The Company invests cash surplus to its operational needs in investment-grade short-term deposit certificates issued by its banks. Interest rate cash flow risk is not significant.

c. **Foreign Currency Risk:** The Company's exploration and evaluation activities are substantially denominated in Canadian and US dollars and Argentinean and Colombian Pesos. The Company's funds are predominantly kept in the same currencies with major financial institutions. The Company's reporting currency is the Canadian dollar; however major purchases are transacted in Canadian dollars, Argentinean Pesos (ARS), Colombian Pesos (COP) and American dollars (USD). The Company does not hedge its foreign exchange risk.

d. **Liquidity Risk:** The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its exploration and evaluation assets or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company without internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programs to retain concession licenses, farm-out arrangements and securing new equity or debt capital. Liquidity risk arises primarily from accounts payable and accrued liabilities and commitments. The Company's accounts payable and accrued liabilities are generally due within 60 days.

13. Commitments

The Company's commitment for office space and rental accommodation for the remainder of this fiscal year is $35,000.

The Company is required to complete various work programs to maintain the rights under its land holding agreements. These commitments are described in Note 4.

15. Related Party Transactions

Certain officers and directors provide consulting services to the Company. For the nine months ended March 31, 2015, these expenditures totaled $190,743. As at March 31, 2015 accounts payable and accrued liabilities include $35,536 in amounts due to related parties.