Vanoil Energy Ltd.

Consolidated Financial Statements

September 30, 2014 and September 30, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Vanoil Energy Ltd.

We have audited the accompanying consolidated financial statements of **Vanoil Energy Ltd.**, which comprise the consolidated statements of financial position as at September 30, 2014 and 2013, and the consolidated statements of loss and 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.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Vanoil Energy Ltd.** as at September 30, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that **Vanoil Energy Ltd.** incurred a net loss of $24,948,392 during the year ended September 30, 2014 and, as of that date, the Company had an accumulated deficit of $69,909,810. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt on **Vanoil Energy Ltd.**'s ability to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada
January 28, 2015

Chartered Accountants

Vanoil Energy Ltd.
Consolidated Statement of Financial Position
(in Canadian dollars)

As at	September 30, 2014 $	September 30, 2013 $
ASSETS		
Cash and cash equivalents	**552,582**	1,568,521
Receivables	**16,805**	218,155
Prepaid expenses	**5,864**	79,232
Current assets of disposal unit *[note 4]*	**7,072,941**	3,887,973
Total current assets	**7,648,192**	5,753,881
Exploration and evaluation assets *[notes 5 and 10]*	**1,179,819**	18,278,660
Long term assets of disposal unit *[note 4]*	**-**	7,079,561
Total assets	**8,828,011**	31,112,102
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Accounts payable and accrued liabilities *[note 9]*	**10,188,402**	10,438,023
Current liabilities of disposal unit *[note 4]*	**3,821,441**	834,404
Total current liabilities	**14,009,843**	11,272,427
Decommissioning liability *[note 6]*	**10,000**	42,000
Long term liabilities of disposal unit *[note 4]*	**-**	2,812,214
Total liabilities	**14,019,843**	14,126,641
Share capital *[note 7[a]]*	**45,621,638**	45,620,242
Contributed surplus *[note 7[c]]*	**16,440,058**	16,440,257
Deficit	**(69,909,810)**	(44,961,418)
Accumulated other comprehensive income (loss) *[note 4]*	**2,656,282**	(113,620)
Total shareholders' equity (deficit)	**(5,191,832)**	16,985,461
Total liabilities and shareholders' equity (deficit)	**8,828,011**	31,112,102

Nature of operations and going concern *[note 1]*
Financial risk management *[note 8]*
Commitments *[note 10]*

Approved by the Board of Directors:

"*Larry Van Hatten*"
Larry Van Hatten, Director

"*Don Padgett*"
Don Padgett, Director

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

Vanoil Energy Ltd.
Consolidated Statement of Loss and Comprehensive Loss
(in Canadian dollars)

	September 30, 2014 $	September 30, 2013 $
EXPENSES		
Continuing operations		
Exploration and evaluation expenditures *[note 5]*	**2,423,638**	-
General and administrative *[note 9]*	**2,968,585**	5,209,962
Foreign exchange loss	**744,699**	185,337
Operating loss from continuing operations	**6,136,922**	5,395,299
Impairment of exploration and evaluation assets *[note 5]*	**801,054**	31,120,746
Gain on recovery of exploration costs *[notes 5 & 6]*	**(723,611)**	-
Gain on recovery of interest expense and settlement of payables	**(74,178)**	-
Other income	**(598)**	(58,141)
Loss from continuing operations before tax	**6,139,589**	36,457,904
Deferred income tax recovery	**(20,619)**	-
Impairment of Avana disposal unit *[note 4]*	**12,268,892**	-
Loss from Avana disposal unit	**388,978**	
Impairment of Sallies disposal unit *[note 4]*	**3,091,724**	-
Loss from Sallies disposal unit	**3,079,829**	552,562
Net loss	**24,948,392**	37,010,466
Other comprehensive (income) loss from foreign currency translations, net of tax of $20,619 [2013 - $0] *[note 4]*	**(2,769,902)**	113,620
Comprehensive loss	**22,178,490**	37,124,086
Basic and diluted net loss per share	**(0.21)**	(0.46)
Basic and diluted loss per share from discontinued operations	**(0.16)**	(0.01)
Weighted average common shares outstanding *[note 7[d]]*		
Basic and diluted	**116,925,029**	79,740,671

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

Vanoil Energy Ltd.
Consolidated Statement of Changes in Shareholders' Equity
(in Canadian dollars)

	Common Shares				**Accumul Othe Comprehe Income (**
	Number	**Amount $**	**Contributed Surplus $**	**Deficit $**	**$**
Balance, September 30, 2012	**51,722,612**	**20,621,906**	**7,045,197**	**(7,950,952)**	
Issued pursuant to private placements *[note 7]*	7,450,549	2,557,318	1,913,011	—	
Issued pursuant to Avana acquisition *[note 3]*	12,500,002	5,250,000	857,934	—	
Issued pursuant to Fluormin acquisition *[note 3]*	45,027,771	17,110,553	6,624,115	—	
Issued to settle outstanding payable *[note 7]*	223,516	80,465	—	—	
Net loss for the year	—	—	—	(37,010,466)	
Other comprehensive loss for the year	—	—	—	—	(1
Balance, September 30, 2013	**116,924,450**	**45,620,242**	**16,440,257**	**(44,961,418)**	**(1**
Issued pursuant to exercise of warrants *[note 7]*	1,288	1,396	(199)	—	
Net loss for the year	—	—	—	(24,948,392)	
Other comprehensive income for the year	—	—	—	—	2,7
Balance, September 30, 2014	**116,925,738**	**45,621,638**	**16,440,058**	**(69,909,810)**	**2,6**

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

Vanoil Energy Ltd.
Consolidated Statement of Cash Flows
(in Canadian dollars)

Year ended September 30,	**2014** **$**	**2013** **$**
OPERATING ACTIVITIES		
Net loss	**(24,948,392)**	(37,010,466)
Loss from Avana disposal unit	**388,978**	-
Loss from Sallies disposal unit	**3,079,829**	552,562
Net loss for the year from continuing operations	**(21,479,586)**	(36,457,904)
Add (deduct) items not involving cash:		
Foreign exchange (gain) loss	**744,699**	49,970
Impairment of Sallies disposal unit *[note 4]*	**3,091,724**	-
Impairment of Avana disposal unit *[note 4]*	**12,268,892**	-
Impairment of exploration and evaluation assets *[note 5]*	**801,054**	31,120,746
Gain on recovery of exploration expenses *[note 5]*	**(723,611)**	-
Depreciation	**3,154**	4,320
Gain on recovery of interest expense and settlement of payables	**(74,178)**	-
Post combination expense	**-**	206,071
Gain on settlement of debt	**-**	(53,644)
Bad debt expense	**-**	30,272
	(5,367,851)	(4,981,282)
Changes in operating assets and liabilities:		
Receivables	**201,350**	492,671
Prepaid expenses	**73,368**	(69,507)
Accounts payable and accrued liabilities *[note 9]*	**752,304**	900,468
Cash used in operating activities	**(4,340,828)**	(3,657,650)
INVESTING ACTIVITIES		
Additions to exploration and evaluation assets *[note 5]*	**-**	(17,938,182)
Recovery of exploration expenditures *[note 5]*	**3,323,692**	-
Interest (recovery) on short-term loan payable	**-**	118,887
Cash from Avana acquisition *[note 3]*	**-**	46,521
Cash from Fluormin acquisition *[note 4]*	**-**	8,123,412
Proceeds from loan to FluorOne	**-**	2,051,886
Decrease in restricted cash	**-**	2,949,600
Cash provided by (used in) investing activities	**3,323,692**	(4,766,763)

Vanoil Energy Ltd.
Consolidated Statement of Cash Flows (Continued)
(in Canadian dollars)

Year ended September 30,	**2014** **$**	**2013** **$**
FINANCING ACTIVITIES		
Net proceeds from the issuance of common shares in private placements	-	4,470,329
Net proceeds from short-term loan	-	5,047,693
Proceeds from the exercise of warrants *[note 7[e]]*	**1,197**	-
Cash provided by financing activities	**1,197**	9,518,022
Increase (decrease) in cash and cash equivalents, during the year	**(1,015,939)**	1,093,609
Cash and cash equivalents, beginning of year	**1,568,521**	474,912
Cash and cash equivalents, end of year	**552,582**	1,568,521

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Vanoil Energy Ltd. ("Vanoil" or the "Company") is incorporated under the laws of the Province of British Columbia, Canada. Vanoil is in the business of the acquisition of interests prospective for and exploration for crude oil and natural gas. The address of the Company's corporate office is Suite 900 – 595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5. Vanoil currently exists under the *Business Corporations Act* (British Columbia) and its common shares are listed on the TSX Venture Exchange (the "Exchange") under the symbol "VEL".

The Company has not yet determined whether its oil and gas exploration and evaluation interests contain reserves that are economically recoverable. The recoverability of the amounts shown for oil and gas exploration and evaluation assets, including deferred oil and gas exploration costs, is dependent primarily upon the results of the international arbitration against the Government of Kenya. Should the arbitration prove favourable to Vanoil, the recoverability of the amounts shown for oil and gas exploration and evaluation assets will be dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing and licenses to complete their development and upon future profitable production or through the proceeds from the sale of assets.

The Company has no significant source of revenue and has significant cash requirements to meet its administrative overhead and maintain its oil and gas exploration and evaluation interests in good standing. The Company incurred a net loss of $24,948,392 during the year ended September 30, 2014 (year ended September 30, 2013 - $37,010,466) and as of that date the Company's deficit was $69,909,810 (September 30, 2013 - $44,961,418). The Company's ability to meet its obligations for at least twelve months from the end of September 30, 2014 and to continue as a going concern is dependent upon the success of the Company's international arbitration against the Government of Kenya, the outcome of which cannot be predicted at this time. Accordingly, these matters give rise to a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying value of asset and liabilities, or the impact on the consolidated statement of comprehensive loss and the consolidated statement of financial position classifications that might be necessary were the going concern assumption not appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements for the year ended September 30, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRICs").

The consolidated financial statements of Vanoil Energy Ltd. for the year ended September 30, 2014 were approved and authorized for issue by the Audit Committee and Board of Directors on January 28, 2015.

Basis of presentation

These consolidated financial statements have been prepared by management on a historical cost basis. All amounts are presented in Canadian dollars, unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and its subsidiaries after elimination of inter-company transactions and balances. Subsidiaries are entities over which the Company has control, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Foreign currency translation

Items in the consolidated financial statements of the Company's subsidiaries are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the parent Company is the Canadian dollar. The functional currency of Madagascar Natural Resources Development SARL is the Malagasy Ariary. The functional currency of Fluormin and Afspar Limited is the British pound. The functional currency of Fluormin Perth Pty Ltd is the Australian dollar. The functional currency of Rubio Investments 391 (Proprietary), Sallies, and Witkop is the South African rand. The functional currency of the remaining subsidiaries is the United States dollar. The assets and liabilities of the subsidiaries are translated into Canadian dollars using the rate in effect on the date of the consolidated statement of financial position. Revenue and expenses are translated at the average rate over the reporting period. Foreign currency translation gains and losses arising from the Company's translation of its subsidiaries with differing functional currencies, are included in accumulated other comprehensive income (loss) as a separate component within shareholders' equity.

Foreign currency transactions

Foreign currency accounts are translated into the functional currency as follows: foreign currency transactions are measured at historical cost using the historical exchange rates in place at the time of the initial transaction. Monetary assets and liabilities held in foreign currencies are measured at the rate in effect on the date of the consolidated statement of financial position. Non-monetary assets and liabilities held in foreign currencies are measured using the exchange rate at the date of the transaction. The foreign currency transaction gains and losses are included in the consolidated statement of operations.

Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement, which is treated as a financial instrument and re-measured at fair value through profit and loss. Acquisition-related costs are expensed as incurred and included in general and administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Cash and cash equivalents

Cash and cash equivalents and restricted investments (within the current assets of the Sallies disposal unit) consist of cash, and highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the declining-balance basis, less the estimated residual value at the following rates:

- Office furniture and equipment – 20% per annum
- Computer hardware – 30% per annum.

Exploration and evaluation assets

Exploration and evaluation costs incurred before the Company has a legal right to explore are charged against income. Once the legal right to explore has been acquired, direct costs of exploration activities are capitalized as intangible exploration and evaluation assets until the assets have been evaluated. Direct costs can include unproved property acquisition costs, geological and geophysical costs, exploratory drilling costs, materials used and contract labour costs. When technical feasibility and commercial viability are demonstrated, the exploration and evaluation costs are then transferred to oil and gas properties. Exploration and evaluation assets are assessed for impairment prior to reclassification to oil and gas properties.

As long as the exploration and evaluation assets remain classified as intangible exploration and evaluation assets, they are subject to technical, commercial and management review, as well as a review for indicators of impairment at each reporting period. If there are indicators of impairment, exploration and evaluation assets are tested for impairment at the cash generating unit level. Exploration and evaluation assets are derecognized when the legal right to explore has expired or when the asset is no longer expected to generate value.
The amounts shown for exploration and evaluation assets represent costs incurred to date, less recoveries, and do not necessarily reflect present or future values.

Included in the cost of exploration and evaluation assets is the cost of the estimated decommissioning liability.

Interests acquired under option agreements, whereby option payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in earnings for the year.

Oil and gas properties

Oil and gas properties are recorded at cost, less accumulated depletion and accumulated impairment losses. All direct costs related to the acquisition, exploration and development of petroleum and natural gas properties are initially capitalized. Costs comprise of the asset's purchase price or construction costs, which can include lease acquisitions, borrowing costs, geological and geophysical costs, equipment costs, drilling, completion and tie-in costs, overhead expenses directly related to development activities and an estimate of decommissioning costs.

Oil and gas properties are depleted using the unit-of-production method based on developed and undeveloped proven reserves, using estimated future prices and costs. The depletion cost base includes total capitalized costs plus the estimated future costs associated with developed and undeveloped proven reserves. Estimated residual values are excluded from the depletion calculation.

Oil and gas properties are derecognized on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss from the derecognition is included in the statement of comprehensive loss.

Developed and undeveloped proven reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. Such reserves may be considered commercially producible if management has the intention of developing and producing them and

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil and gas properties (Continued)

such intention is based upon a reasonable assessment of the future economics of such production, a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production and there is evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Proceeds from the sale of oil and gas properties reduce capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that the carrying amounts of non-financial assets or cash generating units ("CGU") may be impaired. If such an indicator exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the assets belong. If an active market exists for the output produced by an asset or group of assets, the Company identifies that asset or group of assets as a cash-generating unit, even if some or all of the output is used internally.

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments for the time value of money and risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease in the consolidated statement of loss and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

Decommissioning, restoration and similar liabilities

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of oil and gas properties and exploration and evaluation assets, when those obligations result from the acquisition, construction, development or normal operation of the assets when probable that an outflow of economic resources will be required to settle and a reliable asset can be made. Initially, a provision for a decommissioning liability is recognized at its present value in the period in which it is incurred, which is generally when an environmental disturbance occurs or a constructive obligation is determined. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the related asset. The amortization method for oil and gas properties is the unit of production method.

Following the initial recognition of a decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Decommissioning, restoration and similar liabilities (continued)

the underlying cash flows needed to settle the obligation. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the decommissioning liability and the related asset. Any reduction in the liability and therefore the related asset cannot exceed the carrying value of the asset. If it does, the excess is taken to the statement of loss and comprehensive loss.

Financial assets

Initial recognition and measurement

Financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables, or as fair value through profit or loss (*note 8*).

Subsequent measurement

- Fair value through profit or loss financial assets are measured at fair value with unrealized gains and losses recognized through operations. The Company has cash and cash equivalents and restricted cash as fair value through profit or loss.
- Available-for-sale financial assets are measured at their fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. An other than temporary loss will be taken directly to the statement of loss and comprehensive loss. The Company has no financial assets classified as available-for-sale.
- Held-to-maturity are measured at amortized cost less impairment. The Company has no financial assets classified as held-to-maturity.
- Loans and receivables are measured at amortized cost less impairment. The Company has classified its receivables as loans and receivables.
- Transaction costs associated with financial assets classified as fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Impairment on financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

Financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or classified as other financial liabilities (*note 8*):

- Loans and borrowings classified as other loans and borrowings are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities as loans and borrowings.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (continued)

- Fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized through the consolidated statement of comprehensive loss. The Company has no financial liabilities classified as fair value through profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example: the condition and location of the asset and restrictions, if any, on the sale or use of the asset.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

(i) Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities
(ii) Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly and
(iii) Level 3 – Inputs that are not based on observable market data.

The Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management determines the policies and procedures for non-recurring fair value measurements, such as impairment tests. At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share purchase warrants, finder warrants, and share options are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, warrants or options are shown in equity as a deduction, net of tax, from the proceeds.

Share-based compensation

The Company follows the fair value method of accounting for the share option awards granted to employees. The fair value of share options is determined by the widely used Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The number of share option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. Share-based compensation is amortized to earnings over the vesting period of the related option using graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based compensation (continued)

Option-pricing models require the use of highly subjective estimates and assumptions including the expected share price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's share options.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of nontransferability, exercise restrictions, and behavioural considerations.

Consideration received on the exercise of share options is recorded as share capital and the associated amounts previously recognized as contributed surplus are reclassified to share capital. Previously recognized share-based compensation for an option, that had not legally vested and is forfeited, is adjusted to income by reversing the compensation cost previously recorded, in the period of forfeiture.

The fair value of direct awards of stock is determined by the quoted market price of the Company's shares.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses and other deductions carried forward to future years.

Deferred income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. The value of deferred income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle on a net basis.

Losses per share

Basic loss per share calculations are based on the net loss attributable to common shareholders for the period, divided by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share calculations are based on the net loss attributable to common shareholders for the period, divided by the weighted average number of common shares outstanding during the period plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. The incremental number of common shares that would be issued is included in the calculation of diluted earnings per share.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In particular, the Company has identified the following areas where significant judgments, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

Accounts that require significant judgments, estimates, and assumptions as the basis for determining the stated amounts include exploration and evaluation assets, decommissioning liability, and income taxes. As well, the acquisitions of Avana *(note 3)* and Fluormin *(note 3)* involved identifying a purchase transaction as being a business combination or an asset purchase, which requires judgment regarding whether the set of assets acquired and liabilities assumed constitute a business based on the particular circumstances. The acquisition of Avana was classified as a purchase of assets and assumption of liabilities. The purchase price allocation to the assets acquired and the liabilities assumed based upon their relative fair values at the date of acquisition involved judgments, estimates and assumptions. The acquisition of Fluormin was classified as a business combination. Therefore, the purchase price allocation and the fair values of the consideration and the net identifiable assets acquired involved judgments, estimates and assumptions.

Exploration and evaluation assets

The assessment of any impairment of exploration and evaluation assets is dependent upon whether there are any indicators of potential impairment. Furthermore, the Company measures disposal groups classified as held for sale at the lower of its carrying amount and fair value less costs to sell. These assessments may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. As at September 30, 2014, the Company holds the Fluormin and Avana disposal groups at fair value less costs to sell. Fair value less costs to sell of disposal groups is determined based on binding and non-binding sales agreements for the disposal groups as a whole and may change based on due diligence activities undertaken by purchasers. Although the Company has taken steps to verify title to its exploration and evaluation assets, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Decommissioning Liabilities

Decommissioning liabilities are recognized in the period in which they arise and are stated at the best estimate of the net present value of future cash expenditures upon reclamation and closure. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulation and remediation practices. Reclamation and closure costs are capitalized into oil and gas exploration and evaluation assets and depleted on the same basis as the underlying asset.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting judgments, estimates and assumptions (continued)

Acquisition of Fluormin

On May 17, 2013, Vanoil completed its acquisition of Fluormin (*note 3*). As part of the acquisition of Fluormin, Vanoil acquired its subsidiary, Sallies along with its subsidiary, Witkop. These subsidiaries were considered a disposal unit at the acquisition date. Vanoil considered the Sallies and Witkop subsidiaries to meet the criteria to be classified as a disposal unit that is held for sale for the following reasons: Sallies and Witkop were available for immediate sale in their current condition; and the actions required to initiate the sale process had commenced as at September 30, 2014. On November 21, 2014, Fluormin entered into a sale of shares agreement with a third party for the sale of Sallies Ltd. The sale of shares agreement was extended until it closed on January 2, 2015.For more details on the disposal unit, refer to note 3.

Income taxes
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

IFRS standards adopted

IFRS 7 (Amendment) Offsetting Financial Assets and Financial Liabilities

This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. This amendment did not impact the Company's consolidated financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues covered by SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements in IAS 27. IFRS 10 did not have any impact on the Company's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS standards adopted (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 did not impact the Company's consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 will have no impact on the Company's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. More disclosures are required under IFRS 13, which the Company has included in its consolidated financial statements.

IAS 19 (Revised) Employee Benefits

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism, revising termination benefit recognition rules, and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard did not have an impact on the Company's consolidated financial statements.

IAS 27 (Revised) Separate Financial Statements

As a consequence of the new IFRS 10 and IFRS 12 (refer to above), what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements and associates in separate financial statements. The Company does not present separate financial statements.

IAS 28 (Revised) Investments in Associates and Joint Ventures

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS standards issued but not yet effective

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 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 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 11 (Amendment) – Joint Arrangements

The amendment provides for further detail of accounting for acquisitions of interests in joint operations. This amendment is effective for reporting periods beginning on or after January 1, 2016. The Company will perform an analysis to determine whether the amendment will impact the Company's financial position or performance.

IFRS 15 – Revenue from Contracts with Customers

The standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This standard is effective for reporting periods beginning on or after January 1, 2017. The Company will perform an analysis to determine whether the amendment will impact the Company's financial position or performance.

IAS 16 (Amendment) – Property, Plant and Equipment

The amendment clarifies accounting treatment for specific items of property, plant and equipment. This amendment is effective for reporting periods beginning on or after January 1, 2016. This amendment is not expected to impact the Company's financial position or performance.

IAS 32 (Amendment) – Offsetting Financial Assets and Financial Liabilities

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off". The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This amendment is not expected to impact the Company's financial position or performance.

IAS 36 (Amendment) – Impairment of Assets

On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. Disclosure requirements have also been expanded when fair value less costs of disposal is used. These amendments are effective for reporting periods beginning on or after January 1, 2014. These amendments are not expected to impact the Company's financial position or performance.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS standards issued but not yet effective (continued)

IFRIC Interpretation 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of IFRIC 21 may have an impact on the Company's accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12. However, the Company is still assessing and quantifying the effect.

3. BUSINESS COMBINATIONS

Avana Petroleum Limited

On March 15, 2013, Vanoil confirmed that its wholly owned subsidiary, Vanoil Energy Holdings Ltd. had received irrevocable acceptances of its offer for the entire issued share capital of Avana, a private company incorporated under the laws of the Isle of Man with interests in oil and gas assets in Kenya and the Republic of Seychelles, in respect of at least 90% of the issued capital of Avana. Vanoil Energy Holdings Ltd. has exercised its right, pursuant to the compulsory acquisition procedure available to it under the Isle of Man Companies Act 2006, to acquire the remaining shares in issue. The Company completed the acquisition of 100% of the share capital of Avana on April 22, 2013.

The aggregate consideration paid or payable in connection with the acquisition was comprised of:

- 12,500,002 common shares, with an additional 12,500,002 common shares being issuable conditional upon Avana perfecting a 10% interest in Kenya Block L9;
- 4,999,995 warrants, each exercisable to acquire a common share of Vanoil at a price of $1.00 until March 15, 2015; and
- up to US$4,000,000 in cash, which is contingent upon certain conditions being satisfied in connection with the discovery of hydrocarbons on Avana's offshore blocks.

As of March 21, 2013, the acquisition date, and September 30, 2014, the conditions for the payment of the second tranche of 12,500,002 common shares, which included Avana perfecting a 10% interest in Kenya Block L9, by receiving government approval for the transfer and Avana paying back costs estimated at approximately US$4,200,000, were not satisfied. Thus, the second tranche of 12,500,002 common shares has not been issued at September 30, 2014. Due to the uncertainty of the satisfaction of the conditions, the contingent consideration, contingent liability, and the related Kenya Block L9 exploration and evaluation asset, were not recorded. As well, the conditions for the US$4,000,000 in contingent cash payable have not been satisfied, therefore the contingent consideration liability has not been recorded.

Fluormin Limited

On March 15, 2013, the Company announced an offer to acquire 100% of the issued share capital of Fluormin (the "Fluormin Acquisition"), an AIM listed company incorporated under the laws of England and Wales, by way of Fluormin's completion of a scheme of arrangement and resulting securities exchange. On April 19, 2013, Vanoil announced that it had received confirmation of Fluormin's shareholders having passed, by the necessary majorities, the resolutions necessary for the scheme of arrangement, being the shareholder resolutions proposed at both the meeting convened by the order of the High Court of Justice of England and Wales in connection with the scheme of arrangement and at the general meeting of shareholders of Fluormin held on April 17, 2013. Vanoil received shareholder approval for the Fluormin Acquisition at its annual and special meeting of the shareholders on May 10, 2013, as proposed in Vanoil's management information circular dated April 8, 2013 prepared in connection with

3. BUSINESS COMBINATIONS (Continued)

Fluormin Limited **(Continued)**

such meeting. The Fluormin Acquisition was completed on May 17, 2013, after the High Court of Justice of England and Wales sanctioned the scheme of arrangement and the resulting Scheme Order and Reduction of Capital was lodged at the Companies Registry. Subsequently, the admission to trading of the Fluormin shares on AIM was cancelled.

On May 17, 2013, the acquisition date, Vanoil issued consideration to complete the Fluormin Acquisition. The consideration was comprised of the following items:

Vanoil issued in exchange for each Fluormin ordinary share, approximately:

(i) 0.806 of a common share of Vanoil,
(ii) 0.572 of a warrant, with each whole warrant exercisable to purchase a common share of Vanoil at a price of $1.00 until May 17, 2015 ($1.00 Warrant"), and
(iii) 0.116 of a warrant, with each whole warrant exercisable to purchase a common share of Vanoil at a price of $0.75 until March 13, 2014 ("$0.75 Warrant").

Certain Fluormin shareholders who were ineligible to participate in the securities exchange received the cash proceeds from the market sale of the Vanoil shares to which they were entitled, and cash payment of $0.031 per $1.00 Warrant and $0.003 per $0.75 Warrant to which they were entitled but were not issued.

In addition, each stock option of Fluormin that was tendered for exchange prior to the completion of the Fluormin Acquisition was exchanged for half of a $1.00 Warrant. Based upon Fluormin's existing share capital and tendered options, the aggregate consideration was:

- 45,027,771 common shares,
- 33,218,214 $1.00 Warrants,
- 6,475,247 $0.75 Warrants, and
- approximately $785 in lieu of unissued $1.00 Warrants and $0.75 Warrants.

There were 925,332 Fluormin stock options that were not tendered upon the completion of the Fluormin Acquisition. With respect to these outstanding Fluormin options, the articles of association of Fluormin have been amended to provide that, following the scheme of arrangement becoming effective on May 17, 2013, if any existing Fluormin optionholder subsequently exercises options then any Fluormin shares to be issued to such person upon exercise will be automatically transferred to Vanoil in exchange for the option holder receiving the same consideration (in relation to both Vanoil shares and warrants) for each such Fluormin share as was provided to Fluormin shareholders under the terms of the scheme of arrangement. As a result, each outstanding Fluormin optionholder will receive upon exercise of their Fluormin option, approximately: (i) 0.806 of a common share of Vanoil, (ii) 0.572 of a $1.00 Warrant, and (iii) 0.116 of a $0.75 Warrant. As a result, at the time of the acquisition, assuming the full exercise of the outstanding Fluormin options, an additional 745,817 common shares of Vanoil, 529,289 $1.00 Warrants and 107,338 $0.75 Warrants may be issued.

During the year ended September 30, 2013, 880,000 Fluormin options expired unexercised. During the year ended September 30, 2014, the remaining 45,332 Fluormin options outstanding expired unexercised on May 11, 2014.

During Sallies' 2011 fiscal year, shareholders approved a collection of interrelated agreements in which ARH, a government organization which holds this interest for the local community/ or disadvantaged persons, will become a 26% beneficial shareholder of Witkop. On conclusion of the final condition precedent (approval by the Department of Mineral Resources), ARH will subscribe for shares in Witkop at an aggregate price of R83 million, which funds Witkop will advance to ARH. This funding will be repaid by future dividends, which will only be declared once all funds advanced by Sallies to Witkop have been repaid. Until all funding has been repaid, ARH has ceded their rights to Witkop. Vanoil has valued this non-controlling interest at May 17, 2013 at $nil.

(in Canadian dollars)

4. ASSETS HELD FOR SALE

Avana Petroleum Limited

On August 29, 2014, Vanoil announced that its wholly owned subsidiary, Avana, has received a default notice under the joint operating agreement (the "JOA") in respect of Seychelles Areas A and B, due to non-payment of its share of joint account expenses in the amount of USD $732,755 plus interest. Avana has not remedied the default within the time period required under the JOA, and is currently in discussions with East African Exploration (Seychelles) Limited ("EAX") with respect to an extension of the payments. EAX has the option to at any time require Vanoil to completely withdraw from the JOA. This would require Vanoil to transfer its participating interest to EAX. As a result, the Company took an impairment of $12,268,892 to reduce the carrying value of the Seychelles property to its estimated fair value less costs to sell of $1,750,000. The Avana disposal group is in Level 3 of the fair value hierarchy; fair value was determined with reference to potential sale opportunities and EAX's valuation. Management analyses potential changes in fair value with reference to the aforementioned indicators.

	September 30, 2014	September 30, 2013
	$	$
Cash and cash equivalents	13,771	-
Trade and other receivables	-	-
Exploration and evaluation assets	2,700,628	-
Current assets of disposal unit	**2,714,399**	**-**
Accounts payable, and accrued liabilities	(964,399)	-
Current liabilities of disposal unit	**(964,399)**	**-**
Net assets	**1,750,000**	**-**

Other disclosure attributable to disposal group:

	September 30, 2014	September 30, 2013
	$	$
Other comprehensive income	287,907	-
Cash flows:		
Cash used in operating activities	346,846	-
Cash used in investing activities	104,370	-
Cash used in financing activities	-	-

Fluormin Limited

The Sallies subsidiary, along with its subsidiary, Witkop, were purchased with the intent of being disposed of during the year ended September 30, 2014. Therefore, the assets and liabilities of the consolidated Sallies subsidiary have been disclosed separately. The disposal unit was initially valued at fair value less cost to sell and was made up of the following asset classes at September 30, 2014, and September 30, 2013. On November 21, 2014, Fluormin entered into a sale of shares agreement with a third party for the sale of Sallies Ltd. for consideration of 15,000,000 South African Rand ($1,501,500 CAD). The sale of shares agreement was extended until it closed on January 2, 2015, when the first tranche of funds (7,500,000 South African Rand) ($750,750 CAD) were received by the Company. The Sallies disposal group is in Level 3 of the fair value hierarchy; fair value was determined by the price the

(in Canadian dollars)

4. ASSETS HELD FOR SALE (Continued)

***Fluormin Limited* (Continued)**

Company accepted to sell the Sallies subsidiary. Accumulated other comprehensive income attributable to this disposal group is $2,481,996 (September 30, 2013 – accumulated other comprehensive loss of $174,134).

	September 30, 2014	September 30, 2013
	$	$
Cash and cash equivalents	65,021	175,961
Trade and other receivables	212,265	2,237,375
Inventory	-	1,474,637
Restricted investment	2,010,487	-
Property, plant & equipment	2,070,769	-
Current assets of disposal unit	**4,358,542**	**3,887,973**
Restricted investment	-	1,727,128
Property, plant & equipment	-	5,352,433
Long-term assets of disposal unit	**-**	**7,079,561**
Accounts payable, and accrued liabilities	(134,715)	(834,404)
Decommissioning provision	(2,722,327)	-
Current liabilities of disposal unit	**(2,857,042)**	**(834,404)**
Decommissioning provision	-	(2,812,214)
Long-term liabilities of disposal unit	**-**	**(2,812,214)**
Net assets	**1,501,500**	**7,320,916**

Other disclosure applicable to disposal group:

	September 30, 2014	September 30, 2013
	$	$
Other comprehensive income	2,481,996	(174,134)

The decommissioning provision in the disposal group is raised to ensure that adequate provision has been made for the environmental rehabilitation and decommissioning obligation of the Company's Witkop mine that is currently on a care and maintenance program.

For the year ended September 30, 2014, the Company has written down the net assets of Sallies to 15,000,000 South African Rand, consistent with the Sallies sale of shares agreement that closed on January 2, 2015. The impairment of $3,091,724 has been included in the consolidated statement of loss and comprehensive loss.

(in Canadian dollars)

4. ASSETS HELD FOR SALE (Continued)

Reconciliation of decommissioning provision

	September 30, 2014 $	September 30, 2013 $
Opening balance		
Adjustments:	2,812,214	3,083,259
Inflationary adjustment	41,757	43,042
Change in DMR requirements and assumptions	41,658	(21,521)
Change in foreign exchange	(92,711)	-
Fair value adjustment	(80,591)	(292,566)
Closing balance	**2,722,327**	**2,812,214**
Key assumptions:		
Discount rate	7.65%	6.50%
Expected inflation rate	6.9%	7.7%

5. EXPLORATION AND EVALUATION ASSETS

	Kenya $	Rwanda $	Seychelles $	Equipment $	Total $
September 30, 2012	17,281,324	1,858,119	-	3,960	19,143,403
Acquisition of Avana	-	-	12,878,642	-	12,878,642
Additions	13,839,422	741,962	633,050	1,986,166	17,200,600
Impact of foreign exchange	-	-	181,081	-	181,081
Impairment	(31,120,746)	-	-	-	(31,120,746)
Depreciation	-	-	-	(4,320)	(4,320)
September 30, 2013	-	2,600,081	13,692,773	1,985,806	18,278,660
Reclassification to disposal unit	-	-	(13,692,773)	-	(13,692,773)
Impact of foreign exchange	-	-	-	(1,779)	(1,779)
Impairment	-	-	-	(801,054)	(801,054)
Recovery of exploration costs	-	(2,600,081)	-	-	(2,600,081)
Depreciation	-	-	-	(3,154)	(3,154)
September 30, 2014	**-**	**-**	**-**	**1,179,819**	**1,179,819**

Kenya

During the year ended September 30, 2014, $0 (year ended September 30, 2013 - $30,260,323) of additions to exploration and evaluation assets, including acquisitions, were added to the non-depleted portion of exploration and evaluation assets (unproven). During the year ended September 30, 2014, the Company expensed $2,423,638 of costs related to exploration and evaluation due to uncertainty of the Kenya project. These costs primarily related to operating Vanoil's office in Nairobi, Kenya which oversaw the Kenya project. The Kenya office was closed in early 2015.

At September 30, 2014 and each reporting period in fiscal 2014 and 2013, Vanoil assessed its exploration and evaluation assets for indicators of impairment.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

***Kenya* (Continued)**

The Block 3A Kenyan property is subject to a signed Production Sharing Contract ("PSC"), dated October 16, 2007, with the Republic of Kenya (12,192 km^2). The initial contract period of three years, commenced January 14, 2008.

On January 25, 2013, the Company received an extension to its PSC from the Kenyan Ministry of Energy. This extension extended the initial exploration period to December 31, 2013. The Company is in ongoing discussions regarding the extension of the initial exploration period. As the Company has not received an extension to date and due to the uncertainty of the discussions, an indicator of impairment was noted for the property at September 30, 2013.

The Block 3B Kenyan property is subject to a signed PSC, dated October 16, 2007, with the Republic of Kenya (12,489 km^2). The initial contract period of three years, commenced January 14, 2008. On January 25, 2013, the Company had received a further extension to its PSC from the Kenyan Ministry of Energy. This extension extended the initial exploration period to December 31, 2013. The Company is in ongoing discussions regarding the extension of the initial exploration period. As the Company has not received an extension to date and due to the uncertainty of the discussions, an indicator of impairment was noted for the property at September 30, 2013.

Based on the above indicators of impairment, the Company has recorded an impairment on the Kenyan intangible exploration and evaluation assets in the amount of $801,054 for the year ended September 30, 2014 (year ended September 30, 2013 - $31,120,746).

On August 29, 2014, Vanoil announced an update with regards to the ongoing communications with the Kenyan Government with respect to the extension of Vanoil's PSCs over Block 3A and Block 3B. The Company has decided to proceeded with the submission of a formal demand for arbitration. The two arbitrations, to be commenced under each respective PSC, would take place in Kenya and be conducted under the UNCITRAL Arbitration Rules. In addition, Vanoil has commenced evaluation of all possible legal remedies that the Company or its shareholders may have against the Government of the Republic of Kenya (see Note 13 – Subsequent Events).

Rwanda

The Rwanda exploration and evaluation asset was administered through a Technical Evaluation Agreement ("TEA"). The TEA with the Rwandan Ministry of Natural Resources expired effective June 13, 2013. The Company referred this matter to the Conciliation Committee pursuant to Article 10 of the TEA agreement "settlement of disputes". During the year ended September 30, 2014, the Government of Rwanda and Vanoil have agreed to end their discussions regarding the exploration of Lake Kivu in Rwanda following expiry of the TEA. As part of this agreement, the Government of Rwanda and Vanoil have amicably resolved the issues referred to the Conciliation Committee. Based on the agreement with the Government of Rwanda, no impairment was noted at September 30, 2013 as Vanoil recovered from the Rwandan Ministry of Natural Resources the costs associated with the Rwanda property. The gain of $691,611 is reflected in "Gain on recovery of exploration costs" in the statement of consolidated statement of loss and comprehensive loss. The gain was a result of the settlement amount of $3,000,083USD ($3,291,691 CAD) offset by the $2,600,081 of exploration and evaluation assets that had been capitalized.

Equipment

During the year, the Company determined that indicators of impairment existed on its exploration equipment The equipment balance consists of pipes held in Kenya that were impaired to fair value less costs to sell based upon the active market scrap value. This equipment is in Level 3 of the fair value hierarchy, and management analyses potential changes in fair value with reference to the aforementioned indicator.

(in Canadian dollars)

6. DECOMMISSIONING LIABILITY

The decommissioning liability relates to reclamation and closure costs of the Company's Sarcee property, in its previously held Canadian oil and gas exploration and evaluation asset. The decommissioning liability was determined based on the Company's proportionate interest of the estimated total undiscounted future net cash outflows of the reclamation and closure costs required to satisfy the obligation. The Sarcee decommissioning liability of $10,000 was paid in full subsequent to year-end. The gain of $32,000 from the previous balance is reflected in "Gain on recovery of exploration costs" in the statement of consolidated statement of loss and comprehensive loss.

The Company also has a decommissioning provision included within its disposal group. This provision is raised to ensure that adequate provision has been made for the environmental rehabilitation and decommissioning obligation of the Company's Witkop mine that is currently on a care and maintenance program (*note 3*).

7. SHARE CAPITAL

(a) Common shares

Authorized: Common Shares: unlimited common shares without par value.
Preferred Shares: unlimited preferred shares without par value.

Issued and outstanding:	**Shares** #	**Value** $
Balance, September 30, 2012	51,722,612	20,621,906
Shares issued pursuant to a private placement	7,450,549	2,557,318
Shares issued pursuant to Avana acquisition (*note 3*)	12,500,002	5,250,000
Shares issued pursuant to Fluormin acquisition (*note 3*)	45,027,771	17,110,553
Shares issued to settle payable outstanding	223,516	80,465
Balance, September 30, 2013	116,924,450	45,620,242
Shares issued pursuant to exercise of warrants	1,288	1,396
Balance, September 30, 2014	**116,925,877**	**45,621,638**

During the year ended September 30, 2014:

(i) Vanoil issued 1,288 common shares due to the exercise of 922, $1.00 share purchase warrants, and 366, $0.75 share purchase warrants.

During the year ended September 30, 2013:

(i) Vanoil closed a non-brokered private placement that was announced on December 11, 2012, for gross proceeds of $4,470,329. This consisted of 7,450,549 units at a price of $0.60 per unit. Each unit is comprised of one common share and one whole non-transferable warrant. Each warrant entitles the holder to purchase one common share of Vanoil at a price of $1.00 until December 31, 2014. The warrants are subject to accelerated expiry if at any time after the date that is four months and one day after the closing, the Company's common shares trade on the Exchange at a price of $1.50 or more for the preceding 20 consecutive trading days. The Company did not pay any finders' fees in connection with the private placement. The value of the warrants was allocated to the contributed surplus reserve account (*note 7(c)*).

(ii) On March 21, 2013, as part of the consideration for the Avana acquisition (*note 3*), Vanoil issued 7,415,294 common shares valued at $3,114,423 based on the closing market price of the Company's shares on March 21, 2013 of $0.42 per share, to the shareholders of Avana. On April 2, 2013, April 15, 2013, and June 4, 2013 the remaining 5,084,708 shares that were to be issued were issued to the Avana shareholders as part of the consideration for the Avana acquisition.

(in Canadian dollars)

7. SHARE CAPITAL (Continued)

(a) Common Shares (Continued)

(iii) On May 17, 2013, as part of the consideration for the Fluormin acquisition (*note 3*), Vanoil issued 45,027,771 common shares valued at $17,110,553 based on the closing market price of the Company's shares on May 17, 2013 of $0.38 per share, to the shareholders of Fluormin.
(iv) On June 4, 2013, 223,516 shares were issued to settle a payable that was outstanding in the amount of $134,109. The shares were valued at $80,465 based on the closing market price of the Company's shares on June 4, 2013 of $0.36 per share. The settlement of the payable through shares resulted in a gain of $53,644 (*note 9*).

As part of the Fluormin Acquisition, there were 925,332 Fluormin stock options that were not tendered upon the completion of the Fluormin Acquisition. With respect to these outstanding Fluormin options, the articles of association of Fluormin have been amended to provide that, following the scheme of arrangement becoming effective (which occurred on May 17, 2013), if any existing Fluormin optionholder subsequently exercises options then any Fluormin shares to be issued to such person upon exercise will be automatically transferred to Vanoil in exchange for the option holder receiving the same consideration (in relation to both Vanoil shares and warrants) for each such Fluormin share as was provided to Fluormin shareholders under the terms of the scheme of arrangement. As a result, each outstanding Fluormin optionholder will receive upon exercise of their Fluormin option, approximately: (i) 0.806 of a common share of Vanoil, (ii) 0.572 of a $1.00 Warrant, and (iii) 0.116 of a $0.75 Warrant. Assuming the full exercise of the outstanding Fluormin options, an additional 745,817 common shares of Vanoil, 529,289 $1.00 Warrants and 107,338 $0.75 Warrants would have been issued.

During the year ended September 30, 2013, 880,000 Fluormin options expired unexercised. During the year ended September 30, 2014, the remaining 45,332 Fluormin options outstanding expired unexercised on May 11, 2014.

(b) Stock options

The Company's Board of Directors approved the adoption of a stock incentive plan in accordance with the policies of the Exchange. The Board of Directors is authorized to grant options under this plan to directors, officers, consultants or employees to acquire up to 20% of the issued and outstanding common shares. The exercise prices of options granted shall not be less than the discounted market price of the common shares, as determined by the policies of the Exchange, on the date of grant and the exercise period will be from the date the option is granted. The maximum number of options that may be granted to any one person in any 12 month period must not exceed 5% of the common shares outstanding at the time of the grant or 2% if the optionee is a consultant or employed in an investor relations capacity. Under the plan the options vest at the discretion of the directors. Stock options may not have a term exceeding ten years.

There were no stock options granted during the years ended September 30, 2014 and 2013.

A summary of changes in the Company's stock options at September 30, 2014 and September 30, 2013 and the changes for the years then ended is presented below:

	Year ended September 30, 2014		**Year ended September 30, 2013**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance, beginning of year	**7,100,000**	**$0.65**	7,100,000	$0.65
Forfeited	**(500,000)**	**$0.64**	-	$0.00
Balance, end of year	**6,600,000**	**$0.65**	7,100,000	$0.65

(in Canadian dollars)

7. SHARE CAPITAL (Continued)

(b) Stock Options (Continued)

Exercise price	Remaining contractual life (years)	Outstanding	Exercisable	Expiry Date
$0.72	0.11	2,000,000	2,000,000	November 10, 2014
$0.55	5.37	2,850,000	2,850,000	February 10, 2020
$0.65	6.30	650,000	650,000	January 14, 2021
$0.66	6.32	50,000	50,000	January 21, 2021
$0.80	7.55	1,050,000	1,050,000	April 18, 2022

During the year ended September 30, 2014, Vanoil announced that Aaron D'Este had elected to stand down as President, CEO and Director. As a result, the 2,000,000 stock options that were to expire on September 1, 2022, have now expired on November 10, 2014.

(c) Contributed surplus

A summary of the contributed surplus account is presented below:

	$
Balance September 30, 2012	7,045,197
Warrants issued pursuant to private placements *(notes 7(a), and 7(e))*	1,913,011
Warrants issued pursuant to Avana acquisition *(notes 3 and 7(e))*	857,934
Warrants issued pursuant to Fluormin acquisition *(notes 4 and 7(e))*	6,418,044
Post-acquisition costs pursuant to Fluormin acquisition *(notes 4 and 7(e))*	206,071
Balance September 30, 2013	16,440,257
Exercise of warrants *(note 7(a))*	(199)
Balance September 30, 2014	**16,440,058**

(d) Weighted average common shares outstanding

	Years ended September 30, 2014 $	Years ended September 30, 2013 $
Weighted average number of common shares outstanding – basic	**116,925,029**	79,740,671
Dilution effect of stock options and share purchase and finder warrants	**-**	-
Weighted average number of common shares outstanding – diluted	**116,925,029**	79,740,671

The dilution effect of stock options and share purchase and finder warrants was not included in the calculation of diluted earnings per share because they are anti-dilutive for the years ended September 30, 2014 and 2013.

(in Canadian dollars)

7. SHARE CAPITAL (Continued)

(e) Share purchase warrants

A summary of the Company's share purchase warrants issued and outstanding at September 30, 2014 and September 30, 2013 and the changes for the years then ended is presented below:

	Year ended September 30, 2014		**Year ended September 30, 2013**	
	Number of share purchase warrants	**Weighted average exercise price**	**Number of share purchase warrants**	**Weighted average exercise price**
Outstanding, beginning of year	**62,787,942**	**$0.97**	10,643,937	$0.95
Granted	**-**	**-**	52,144,005	$0.97
Expired	**(8,744,881)**	**($0.75)**	-	-
Exercised	**(1,288)**	**($0.93)**	-	-
Outstanding, end of year	**54,041,773**	**$1.00**	62,787,942	$0.97

There were no share purchase warrants issued during the year ended September 30, 2014. On October 6, 2013, 2,270,000 unexercised share purchase warrants expired. As well, on March 13, 2014 6,474,881 unexercised share purchase warrants expired.

During the year ended September 30, 2014, 922, $1.00 share purchase warrants, and 366, $0.75 share purchase warrants, were exercised.

A portion of the share purchase warrants issued during the year ended September 30, 2013 were issued as part of the private placement which closed during the year ended September 30, 2013. The placement consisted of 7,450,549 units at a price of $0.60 per unit. Each unit was comprised of one common share and one whole non-transferable warrant. Therefore, 7,450,549 share purchase warrants were issued. Each warrant entitles the holder to purchase one common share of Vanoil at a price of $1.00 until December 31, 2014. The warrants are subject to accelerated expiry if at any time after the date that is four months and one day after the closing, the Company's common shares trade on the Exchange at a price of $1.50 or more for the preceding 20 consecutive trading days. At September 30, 2014 this clause was not triggered.

The fair value of the warrants ($0.26/share purchase warrant) issued as part of the private placements during the year ended September 30, 2013 was determined using the Black-Scholes option pricing model with the following assumptions:

Exercise price:	$1.00
Expected life:	1.50 years
Dividend yield:	0.00%
Risk free interest rate:	1.14%
Volatility:	131.64%

As part of the Avana acquisition (*note 3*), 4,999,995 warrants were issued, as part of the consideration for the acquisition. Each warrant is exercisable to acquire a common share of Vanoil at a price of $1.00 until March 15, 2015.

(in Canadian dollars)

7. SHARE CAPITAL (Continued)

(e) Share purchase warrants (continued)

The fair value of the warrants ($0.17/warrant) issued as part of the Avana acquisition during the year ended September 30, 2013 was determined using the Black-Scholes option pricing model with the following assumptions:

Exercise price:	$1.00
Expected life:	1.50 years
Dividend yield:	0.00%
Risk free interest rate:	0.98%
Volatility:	134.35%

The remaining share purchase warrants issued during the year ended September 30, 2013 were issued as part of the Fluormin acquisition. As part of the Fluormin acquisition (*note 3*), 33,218,214 $1.00 Warrants, and 6,475,247 $0.75 warrants were issued as part of the consideration for the acquisition. Each $1.00 Warrant is exercisable to acquire a common share of Vanoil at a price of $1.00 until May 17, 2015. Each $0.75 Warrant was exercisable to acquire a common share of Vanoil at a price of $0.75 until March 13, 2014. The $1.00 Warrants were made up of 31,930,214 warrants issued as part of the acquisition and 1,288,000 $1.00 Warrants issued as replacements for 2,576,000 Fluormin options that were tendered for exchange at May 17, 2013.

The fair value of the 31,930,214 $1.00 Warrants ($0.18/warrant) issued as part of the Fluormin acquisition during the year ended September 30, 2013 was determined using the Black-Scholes option pricing model with the following assumptions:

Exercise price:	$1.00
Expected life:	2 years
Dividend yield:	0.00%
Risk free interest rate:	1.01%
Volatility:	133.32%

The fair value of the 2,576,000 Fluormin options ($0.02/option) that were exchanged into $1.00 Warrants were valued at May 17, 2013, immediately prior to the acquisition, and was determined using the Black-Scholes option pricing model with the following assumptions that were based on the value of the previous option at May 17, 2013:

Exercise price:	0.38 – 1.25 GBP
Expected life:	0.98 – 3.58 years
Dividend yield:	0.00%
Risk free interest rate:	1.01 – 1.19%
Volatility:	62.78 – 62.86%

The fair value of the replacement 1,288,000 Vanoil $1.00 Warrants for the Fluormin options that were exchanged as at May 17, 2013 ($0.18/warrant) was determined using the Black-Scholes option pricing model using the same assumptions that were used to determine the fair value of the 31,930,214 $1.00 Warrants above. The incremental value of $194,982 was recorded in contributed surplus and the consolidated statement of comprehensive loss as a post combination expense.

(in Canadian dollars)

7. SHARE CAPITAL (Continued)

(e) Share purchase warrants (continued)

The fair value of the $0.75 Warrants ($0.09/warrant) issued as part of the Fluormin acquisition during the year ended September 30, 2013 was determined using the Black-Scholes option pricing model with the following assumptions:

Exercise price:	$0.75
Expected life:	0.82 years
Dividend yield:	0.00%
Risk free interest rate:	1.01%
Volatility:	119.80%

As part of the Fluormin Acquisition, there were 925,332 Fluormin stock options that were not tendered upon the completion of the Fluormin Acquisition. With respect to these outstanding Fluormin options, the articles of association of Fluormin have been amended to provide that, following the scheme of arrangement becoming effective (which occurred on May 17, 2013), if any existing Fluormin optionholder subsequently exercises options then any Fluormin shares to be issued to such person upon exercise will be automatically transferred to Vanoil in exchange for the option holder receiving the same consideration (in relation to both Vanoil shares and warrants) for each such Fluormin share as was provided to Fluormin shareholders under the terms of the scheme of arrangement. As a result, each outstanding Fluormin optionholder will receive upon exercise of their Fluormin option, approximately: (i) 0.806 of a common share of Vanoil, (ii) 0.572 of a $1.00 Warrant, and (iii) 0.116 of a $0.75 Warrant. Assuming the full exercise of the outstanding Fluormin options, an additional 745,817 common shares of Vanoil, 529,289 $1.00 Warrants and 107,338 $0.75 Warrants would have been issued.

The fair value of the Fluormin options that were not tendered as at May 17, 2013 ($0.01/option) was determined using the Black-Scholes option pricing model with the following assumptions that were based on the value of the previous option at May 17, 2013:

Exercise price:	0.53 – 1.25 GBP
Expected life:	0.98 – 3.45 years
Dividend yield:	0.00%
Risk free interest rate:	1.01 – 1.18%
Volatility:	62.78 – 62.86%

The fair value of the replacement Fluormin options that were not tendered as at May 17, 2013 ($0.02/option) was determined using the Black-Scholes option pricing model with the following assumptions that were based on the value of the new option at May 17, 2013:

Exercise price:	$0.42
Expected life:	0.08 - 0.98 years
Dividend yield:	0.00%
Risk free interest rate:	1.01%
Volatility:	130.08 - 251.06%

The incremental value of the untendered Fluormin options of $11,089 was recorded in contributed surplus and the consolidated statement of comprehensive loss as a post combination expense.

(in Canadian dollars)

7. SHARE CAPITAL (Continued)

(e) Share purchase warrants (Continued)

During the year ended September 30, 2013, 880,000 Fluormin options expired unexercised. During the year ended September 30, 2014, the remaining 45,332 Fluormin options outstanding expired unexercised on May 11, 2014.

Exercise price	Remaining contractual life (years)	Outstanding	Expiry Date
$1.00	0.25	7,450,549	December 31, 2014
$1.00	0.45	4,999,995	March 15, 2015
$1.00	0.63	33,217,292	May 17, 2015
$1.00	2.84	8,373,937	August 2, 2017

On July 24, 2014, Vanoil announced that the Exchange has consented to the extension in the expiry date of the following share purchase warrants:

(i) 4,025,818 Warrants expiring August 2, 2014;
(ii) 4,291,666 Warrants expiring August 10, 2014; and
(iii) 56,453 Warrants expiring August 21, 2014.

The 8,373,937 Warrants exercisable at a price of CDN$1.00 have all been extended to August 2, 2017. In all other respects, the terms of the Warrants will remain unchanged and in full force and effect.

(f) Finder warrants

Vanoil issued 130,108 finder warrants in consideration for one of the private placements that occurred during the year ended September 30, 2012. Each finder warrant entitles the holder to purchase one share at a price of $0.60 per share for a period of 24 months following closing. The finder warrants are subject to accelerated expiry if, at any time after the date that is four months and one day after the closing, the Company's shares trade on the Exchange at a price of $1.50 or more for the preceding 20 consecutive trading days. On August 2, 2014, the 130,108 finder warrants expired unexercised.

8. FINANCIAL RISK MANAGEMENT

Categories of financial instruments

The carrying values of the Company’s financial instruments are classified into the categories below. Fair values are determined either directly by reference to published price quotations in an active market, or from valuation techniques using observable inputs. The carrying value of all of the Company’s financial instruments approximates their fair value.

8. FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments (Continued)

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. All instruments are short-term in nature and therefore fair values approximate their carrying values. The fair values of the Company's financial instruments are not materially different from their carrying values.

The three levels of the fair value hierarchy are:

(i) Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities
(ii) Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly and
(iii) Level 3 – Inputs that are not based on observable market data.

At September 30, 2014 and September 30, 2013, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents, and restricted investments, within the disposal group. These financial instruments were classified as "Level 1" financial instruments.

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of risks including interest rate risk; foreign exchange risk; credit risk; and liquidity risk. Reflecting the current stage of development of Vanoil's various projects, the Company's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan. Risk management is the responsibility of the finance function. Material risks are identified and monitored and are discussed by senior management and with the Audit Committee and the Board of Directors.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company places its cash and cash equivalents, with high credit quality financial institutions. Vanoil estimates that for every 1% fluctuation in the interest rate, the Company's comprehensive loss for the year ended September 30, 2014 would be $6 (year ended September 30, 2013 - $14,875) higher or lower.

(b) Foreign exchange risk

Vanoil operates projects in several different countries and therefore, foreign exchange risk exposures arise from transactions denominated in foreign currencies. Foreign exchange risk for the Company arises primarily with respect to the US dollar, the British pound, and South African rand. The foreign exchange risk is for the net amount denominated in US dollars, British pounds and South African rand since Vanoil treats Canadian dollars as the Company's presentation currency.

At September 30, 2014, for every 10% fluctuation in the exchange rate between the US dollar, British pound, South African rand and the Canadian dollar, the Company`s loss and other comprehensive loss would be approximately $191,158 higher or lower (September 30, 2013 - $16,359).

(in Canadian dollars)

8. FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments (Continued)

(c) Credit risk

Credit risk arises from cash and cash equivalents, and restricted investments held with banks and financial institutions, as well as credit exposure on outstanding receivables. Vanoil's cash and cash equivalents, and restricted investments are held through large reputable financial institutions, and management believes the risk of loss is remote. Therefore the maximum exposure to credit risk is equal to the carrying value of the Company's receivables.

(d) Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. At September 30, 2014, the Company had a working capital deficit of $(6,361,651) (September 30, 2013 – $(5,518,546)).

Vanoil has $14,019,843 (September 30, 2013 – $25,024,857) of known contractual obligations at September 30, 2014 (*note 10*). Due to the Company's working capital deficit position and its known contractual obligations, the Company has significant liquidity risk. To mitigate the risk, the Company will look to raise capital through equity financing and/or farm-in partners.

9. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements from Vanoil Energy Ltd. and its subsidiaries listed in the following table:

		% equity interest	
Name	**Location of Incorporation**	**At September 30, 2014**	**At September 30, 2013**
Vanoil Energy Holdings Ltd.	British Virgin Islands	100%	100%
Vanoil (Energy) Resources Ltd.	British Virgin Islands	100%	100%
Vanoil Resources Ltd.	British Virgin Islands	100%	100%
Avana Petroleum Limited	Isle of Man	100%	100%
Madagascar Natural Resources Development SARL	Madagascar	100%	100%
Avana Petroleum Kenya Ltd.	Kenya	100%	100%
Fluormin Limited	England and Wales	100%	100%
Fluormin Perth Pty Ltd.[2]	Australia	100%[2]	100%
HMH Fluor Limited[2]	British Virgin Islands	100%[2]	100%
Rubio Investments 391(Proprietary) Limited	Republic of South Africa	100%	100%
Afspec Limited	Mauritius	100%	100%
Kenya Fluorspar (BVI) Holdings Ltd.[2]	British Virgin Islands	100%[2]	100%
Afspar Limited	England and Wales	100%	100%
Sallies Limited	Republic of South Africa	100%	100%
Witkop Fluorspar Mine (Proprietary) Limited[1]	Republic of South Africa	74%	74%

1 Sallies Limited holds a 74% interest in Witkop Fluorspar Mine (Pty) Ltd. (a South African corporation). South African regulations stipulate that a 26% interest in mining corporations must be held by historically disadvantaged persons. Pursuant to this requirement, the balance of the share capital of Witkop Fluorspar Mine (Pty) Ltd. is held by African Renaissance Holdings Limited, a government organization which holds this interest for the local community or disadvantaged persons.
2 In 2014, Fluormin Perth Pty Ltd., HMH Fluor Ltd. and Kenya Fluorspar were deregistered as they were no longer in operation.

There are currently two common shares in the capital of Avana Petroleum Kenya Ltd. issued and outstanding. One share is held by Avana and the remaining share is held by a director of the Company, which is held in trust for Avana.

(in Canadian dollars)

9. RELATED PARTY TRANSACTIONS (Continued)

The Fluormin acquisition that occurred during the year ended September 30, 2013, was considered a related party transaction, as Vanoil and Fluormin share a significant common shareholder and director (*note 3*).

During the year ended September 30, 2014, Vanoil recorded transactions with related parties at amounts agreed to by the transacting parties, within the normal course of business.

During the year ended September 30, 2014, Vanoil subsidiaries have recorded transactions with related parties based on commercial relationships as follows:

- Avana Limited had signed a service agreement with Avana Petroleum Limited, a Vanoil subsidiary, in which Avana Limited provides office and administrative services to Avana Petroleum in exchange for an annual fee of 3,900GBP. Avana Petroleum Limited must also reimburse Avana Limited for costs incurred at a rate of cost plus 10%. During the year ended September 30, 2014, $13,096 related to these transactions was included in the Company's general and administrative expenses. At September 30, 2014, $3,051 related to these transactions was included in the Company's accounts payable and accrued liabilities.
- Avana Resources SARLU has signed an agreement to split charges with Madagascar Natural Resources Development SARLU, a Vanoil subsidiary, in which Avana Resources SARLU will bill a flat fee of USD800 per month to Madagascar Natural Resources Development SARLU, in exchange for the use of its offices as well as administrative support. During the year ended September 30, 2014, $10,398 related to these transactions was included in the Company's general and administrative expenses.

Sam Malin, a former officer and director of Vanoil, has a controlling interest in Avana Limited and Avana Resources SARLU.

At September 30, 2014, accounts payable and accrued liabilities included $20,615 owed by Vanoil to related parties (September 30, 2013 - $0).

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the years ended September 30, 2014 and 2013 are as follows:

	Year ended	
	September 30, 2014	**September 30, 2013**
	$	**$**
Short-term employee benefits	**669,456**	1,026,533

Of the total compensation paid to key management personnel for the year ended September 30, 2014, $0 (year ended September 30, 2013 - $131,029) has been capitalized to exploration and evaluation assets. The remaining compensation has been included in general and administrative expenses.

On June 4, 2013, 223,516 shares were issued to a member of key management to settle a payable that was outstanding in the amount of $134,109. The shares were valued at $80,465 based on the closing market price of the Company's shares on June 4, 2013 of $0.36 per share. The settlement of the payable through shares resulted in a gain of $53,644 (*note 7(a)*).

10. COMMITMENTS

The Block 3A Kenyan property is subject to a signed Production Sharing Contract ("PSC"), dated October 16, 2007, with the Republic of Kenya (12,192km^2). The initial contract period of three years, commenced January 14, 2008. On January 25, 2013, the Company received an extension to its PSC from the Kenyan Ministry of Energy. This extension extended the initial exploration period to December 31, 2013. The Company is in ongoing discussions regarding the extension of the initial exploration period. As the Company has not received an extension to date, it has reflected the commitments per the work program of the initial exploration period ended December 31, 2013.

(in Canadian dollars)

10. COMMITMENTS (continued)

The Block 3B Kenyan property is subject to a signed PSC, dated October 16, 2007, with the Republic of Kenya (12,489km^2). The initial contract period of three years, commenced January 14, 2008. On January 25, 2013, the Company had received a further extension to its PSC from the Kenyan Ministry of Energy. This extension extended the initial exploration period to December 31, 2013. The Company is in ongoing discussions regarding the extension of the initial exploration period. As the Company has not received an extension to date, it has reflected the commitments per the work program of the initial exploration period ended December 31, 2013.

The commitments for the initial exploration period ended December 31, 2013 were:

- Drill two wells in succession, commencing before July 31, 2013, at a minimum vertical depth of 3,000m each at a minimum cost of US$6,000,000 each.

As the Company is in ongoing discussions regarding the extension of the initial exploration period, it has included the related commitments of the initial exploration period ended December 31, 2013 as part of its contractual obligations (*note 5*).
Vanoil, through its wholly owned subsidiary Avana, holds a 25% participating interest in the properties Area A and Area B, comprised of in excess of 14,000 km^2 (3.7 million acres) exploration area awarded to Avana and its partner East African Exploration (Seychelles) Limited ("EASL"), a wholly owned subsidiary of Afren, in the Seychelles pursuant to an agreement dated November 28, 2008, as amended on February 2, 2011. Avana and EASL applied to the Government of Seychelles for a further amendment to this agreement whereby, in consideration for the acquisition of 3,300 km^2 of 3D seismic work, which was completed during December 2012 through February 2013, the work program would be considered to be in the third exploration phase which entails the drilling of two exploration wells, the first of which is planned for late 2014/2015. The Government of Seychelles approved the amendment, in July 2013, which was dated April 2013. The commitments of the third exploration phase are based on technical work program content rather than the actual monetary spend, and specifically entail:

- drilling two exploration wells
- contingent on the results of the wells, carry out a 3D survey(s) totaling 100 sq km or 1,000km of additional infill 2D data

The following table lists as at September 30, 2014 the information with respect to Vanoil's known contractual obligations.

		Payments due by period		
Contractual obligations	**Total $**	**Less than 1 year $**	**1-3 years $**	**More than 3 years $**
Accounts payable and accrued liabilities[1]	10,188,402	10,188,402	-	-
Current liabilities of disposal unit	3,821,441	3,821,441	-	-
Decommissioning liability	10,000	10,000	-	-
Obligations under production sharing contracts for Kenya	-	-	-	-
Total	**14,019,843**	**14,019,843**	**-**	**-**

(in Canadian dollars)

10. COMMITMENTS (continued)

The following table lists as at September 30, 2013 the information with respect to Vanoil's known contractual obligations.

		Payments due by period		
Contractual obligations	**Total $**	**Less than 1 year $**	**1-3 years $**	**More than 3 years $**
Accounts payable and accrued liabilities	10,438,023	10,438,023	-	-
Current liabilities of disposal unit	834,404	834,404	-	-
Long-term liabilities of disposal unit (net)[2]	1,085,087	-	1,085,087	-
Decommissioning liability	42,000	-	42,000	-
Obligations under production sharing contracts for Kenya[3]	12,625,343	12,625,343	-	-
Total	**25,024,857**	**23,897,770**	**1,127,087**	**-**

Notes:

[1]Vanoil has received demand letters for outstanding payment (which amounts have been included in accounts payable and accrued liabilities) that have a high likelihood of obligation existing, resulting in a future outflow of economic resources. The amounts as per the demand letters are $811,246 USD ($908,596 CAD), $651,596 USD ($729,788 CAD), and $620,094 USD ($694,505 CAD).
[2]The decommissioning liability within the long-term liabilities of disposal unit (net) is shown net of the long-term restricted investments which are in place to pay the liability when it becomes due.
[3]The obligations under the production sharing contracts for Kenya are based on the amended work program of the initial exploration period ended December 31, 2013. Due to the current international arbitration against the Government of Kenya, the Company does not have any commitments to obligations under production sharing contracts for Kenya for the year ended September 30, 2014.

11. CAPITAL MANAGEMENT

The Company manages its restricted investments, common shares, stock options, share purchase warrants, and finder warrants as capital. As Vanoil is in the exploration and evaluation stage, the Company's principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires the approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its oil and gas exploration and evaluation assets for the benefit of its shareholders. The Company primarily uses stock options to retain and provide future incentives to key members of the management team and Board of Directors. The granting of stock options is determined by the Compensation Committee of the Board of Directors.

For the year ended September 30, 2013, the Company reviewed its investment strategy and determined that it was appropriate to invest cash, in cash equivalents (September 30, 2014 – $0, September 30, 2013 – $25,080). This strategy was revised for the year ended September 30, 2014, in which no funds were held in cash equivalents as at year end. At September 30, 2014, the shareholders' equity (deficit) of the Company was ($5,191,832) (September 30, 2013 - $16,985,461).

(in Canadian dollars)

12. INCOME TAXES

a) Income tax expense

Income tax expense differs from the amount that would result from applying the enacted Canadian federal and provincial income tax rates to the loss before income taxes. These differences result from the following items.

Year ended September 30,	**2014** **$**	2013 $
Combined federal and provincial statutory income tax rate	**26.00%**	25.50%
Accounting loss before income tax	**(24,948,392)**	(36,457,904)
Income tax recovery at statutory income tax rate	**(6,486,582)**	(9,297,000)
Non-deductible expenses	**225,000**	184,000
Differences in foreign tax rates	**106,000**	(13,000)
Change in estimate	**(1,171,037)**	(211,000)
Benefits not recognized	**7,306,000**	9,337,000
	6,471,324	9,297,000
Income tax recovery	(20,619)	-

b) Deferred income tax

Deferred income tax at September 30 relates to the following:

Year ended September 30,	**2014** **$**	2013 $
	-	-
Deferred income tax liability	**-**	-
Foreign currency gain	**(20,619)**	-
Deferred income tax asset	**-**	-
Non-capital losses	**20,619**	-
	-	-

c) Unrecognized deductible temporary differences

As at September 30, 2014, the Company had deductible temporary differences for which deferred tax assets have not been recognized because it is not probable that future profit will be available against which the Company can utilize the benefits.

Deductible temporary differences for which deferred income tax assets have not been recognized are as follows:

	September 30, 2014 **$**	**September 30, 2013** $
Deductible temporary differences:		
Non-capital losses	**10,159,000**	8,048,000
Exploration and evaluation assets	**37,461,000**	30,251,000
Current assets of disposal unit	**18,244,000**	-
Financing fees and other	**1,240,000**	610,000
Total deductible temporary differences	**67,104,000**	38,909,000

(in Canadian dollars)

12. INCOME TAXES (continued)

d) Expiry of non-capital losses

At September 30, 2014, the Company has available non-capital losses for income tax purposes in Canada totaling approximately $7,439,000 ($6,014,000 – September 30, 2013) and in other jurisdictions totaling approximately $2,793,000 ($2,034,000 – September 30, 2013) which are available to be carried forward to reduce taxable income in future years and expire as follows:

Year	Canada $	Other $	Total $
2018	-	653,000	653,000
2030	902,000	-	902,000
2031	1,230,000	-	1,230,000
2032	1,065,000	-	1,065,000
2033	2,750,000	-	2,750,000
2034	1,492,000	-	1,492,000
Indefinitely	-	2,140,000	2,140,000
	7,439,000	**2,793,000**	**10,232,000**

e) At September 30, 2014, the Company had no taxable temporary difference (2013 - $nil) relating to investments in subsidiaries that has not been recognized because the Company controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

13. SEGMENT INFORMATION

The Company operates primarily in one industry, oil and gas exploration and development, as the Fluorspar mine that is held in South Africa is on care and maintenance, and is part of the Company's disposal unit. Vanoil does not generate any significant revenue from its continuing operations. The Company's activities occur primarily in Kenya, Rwanda, Seychelles, Canada, South Africa, and the United Kingdom. The impairment of exploration and evaluation assets in the amount of $801,054 for the year ended September 30, 2014 (year ended September 30, 2013 - $31,120,746) related to pipes held in the Kenya geographical segment. Vanoil's non-current assets are segmented as summarized in the table below based on geographic location:

September 30, 2014	Kenya $	Rwanda $	Seychelles $	Canada $	South Africa $	Total $
Exploration and evaluation assets	1,179,819	-	-		-	1,179,819

September 30, 2013	Kenya $	Rwanda $	Seychelles $	Canada $	South Africa $	Total $
Exploration and evaluation assets	1,971,787	2,600,081	13,692,773	14,019	-	18,278,660
Long term assets of disposal unit	-	-	-	-	7,079,561	7,079,561
	1,971,787	2,600,081	13,692,773	14,019	7,079,561	25,358,221

14. SUBSEQUENT EVENTS

Subsequent to September 30, 2014, Vanoil announced the following events:

- On October 1, 2014, the Company announced that it has commenced an international arbitration against the Government of Kenya (the "Respondent"). This action has been filed to resolve a dispute arising from the Respondent's breach of the Production Sharing Contracts (the"PSCs") for Blocks 3A and 3B. Vanoil is seeking not less than US$150 million as full and proper restitution for its seven years of exploration and development, based upon the net present value of its investment in Kenya, to which it is entitled under the PSCs.

- On October 30, 2014, the Company announced the resignation of Mr. Sam Malin as president, chief executive officer ("CEO") and director of the Company. Mr. Don Padgett was appointed as interim president and CEO of the Company.

- On October 31, 2014, the Company announced an immediate review of all Company operations, with the priority goal to eliminate non-essential costs, dispose of non-productive assets and secure sufficient funding to enable Vanoil aggressively pursue its legal arbitration claims against the Republic of Kenya.

- On November 21, 2014, Fluormin entered into a sale of shares agreement with a third party for the sale of Sallies Ltd. for consideration of 15,000,000 South African Rand ($1,501,500 CAD). The sale of shares agreement was extended until it closed on January 2, 2015, when the first tranche of funds (7,500,000 South African Rand) ($750,750 CAD) was received by Fluormin.