Terra Nova Energy Ltd.

Consolidated Financial Statements

July 31, 2014 and 2013

(Expressed in Canadian Dollars)

KPMG LLP
205-5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary, AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Terra Nova Energy Ltd.

We have audited the accompanying consolidated financial statements of Terra Nova Energy Ltd., which comprise the consolidated statements of financial position as at July 31, 2014 and 2013, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising 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 our 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, we 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 consolidated financial position of Terra Nova Energy Ltd. as at July 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that Terra Nova Energy Ltd. requires significant further funding to continue to develop its oil and gas exploration and evaluation interests and continue its operations. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on Terra Nova Energy Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants

November 25, 2014
Calgary, Canada

Terra Nova Energy Ltd.
Consolidated Statements of Financial Position
As at July 31, 2014 and 2013
(Expressed in Canadian Dollars)

	Notes	2014 $	2013 $
Assets			
Current assets			
Cash		104,628	656,589
Cash held-in-trust	8	47,515	1,610,642
Receivables	7	216,436	1,019,841
Prepaid expenses		15,387	8,388
		383,966	3,295,460
Equipment		22,708	32,440
Exploration and evaluation interests	8	5,892,481	4,926,767
		6,299,155	8,254,667
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	223,523	1,115,698
Convertible notes – liability component	10	1,500,000	1,689,012
Decommissioning obligation	8	35,448	32,256
		1,758,971	2,836,966
Equity Attributable to Shareholders			
Share capital	11	24,724,372	24,032,436
Contributed surplus		6,687,583	6,581,604
Convertible notes – equity component	10	-	129,153
Accumulated other comprehensive loss (“AOCL”)		(42,289)	(666,181)
Deficit		(26,829,482)	(24,659,311)
		4,540,184	5,417,701
		6,299,155	8,254,667

Nature of operations - Note 1
Going concern - Note 2
Commitments and contingencies - Notes 8, 10 and 11
Subsequent events – Notes 10, 11 and 17

Approved by the Board of Directors on November 25, 2014

“Henry Aldorf” Director   “Robert McMorran” Director

Terra Nova Energy Ltd.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2014 and 2013
(Expressed in Canadian Dollars)

	Notes	2014 $	2013 $
Audit and accounting	13	180,794	248,319
Filing and transfer agent		67,755	70,294
Depreciation		9,732	11,924
Legal	13	55,660	165,973
Management	13	186,517	506,988
Office and miscellaneous		35,599	158,429
Overhead charged to exploration		(44,002)	(128,237)
Shareholder communications		11,359	48,802
Share-based payments	11(c)	32,512	328,338
Travel and related		26,304	44,497
Loss before other items		(562,230)	(1,455,327)
Gain on debt settlement	10	57,150	7,514
Interest income		7,011	147,356
Write-off of exploration and evaluation interests	8	(1,268,989)	(4,176,277)
Interest, accretion and loan placement expense	10	(403,113)	(35,191)
Loss for the year		(2,170,171)	(5,511,925)
Other comprehensive income (loss)			
Exchange gain (loss) on translation of foreign accounts	8(g)	623,892	(946,981)
Comprehensive loss for the year		(1,546,279)	(6,458,906)
Loss per share – basic and diluted	11(f)	(0.03)	(0.09)
Weighted average number of shares outstanding – basic and diluted		66,433,196	62,774,183

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

Terra Nova Energy Ltd.
Consolidated Statements of Cash Flows
For the years ended July 31, 2014 and 2013
(Expressed in Canadian Dollars)

	2014 $	2013 $
Cash Provided From (Used In)		
Operating Activities		
Loss for the year	(2,170,171)	(5,511,925)
Items not affecting cash:		
Depreciation	9,732	11,924
Gain on debt settlement	(57,150)	(7,514)
Share-based payments – severance	-	116,000
Share-based payments – options	32,512	328,338
Write-off of exploration and evaluation interests	1,268,989	4,176,277
Accretion and loan placement expense	215,988	19,316
	(700,100)	(867,584)
Net change in non-cash working capital items		
Receivables	504,207	(479,239)
Prepaid expenses	(6,999)	(5,711)
Accounts payable and accrued liabilities	201,680	117,756
	(1,212)	(1,234,778)
Investing Activities		
Equipment	-	(44,364)
Exploration and evaluation interests	(2,223,300)	(8,072,924)
	(2,223,300)	(8,117,288)
Financing Activities		
Proceeds from securities issued	97,900	1,290,000
Share issuance costs	-	(104,460)
Proceeds on promissory notes issued	-	300,000
Repayment on promissory notes	-	(300,000)
Proceeds on convertible notes, net of issuance costs	-	1,892,078
	97,900	3,077,618
Foreign exchange gain (loss) on cash held in foreign currencies	11,524	(268,665)
Decrease in cash and cash held-in-trust	(2,115,088)	(6,543,113)
Cash and cash held-in-trust – beginning of the year	2,267,231	8,810,344
Cash and cash held-in-trust – end of the year	152,143	2,267,231
Cash paid for interest	-	-
Cash paid for income taxes	-	-

Supplemental cash flow information - Note 15

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

Terra Nova Energy Ltd.

Consolidated Statements of Changes in Equity
For the years ended July 31, 2014 and 2013
(Expressed in Canadian Dollars)

	Common Shares #	Share Capital $	Contributed Surplus $	Equity Component of Convertible Notes $	AOCL $	Deficit $	Total $
Balance – July 31, 2012	57,707,197	23,013,555	5,789,878	-	280,800	(19,147,386)	9,936,847
Issued during the year:							
Pursuant to settlement agreement	400,000	116,000	-	-	-	-	116,000
Pursuant to debt settlement	875,000	87,500	-	-	-	-	87,500
For cash pursuant to private placements	6,450,000	941,278	348,722	-	-	-	1,290,000
Less issue costs							
Cash	-	(104,460)	-	-	-	-	(104,460)
Finder's warrants	-	(21,437)	21,437	-	-	-	-
Equity component of convertible notes	-	-	-	129,153	-	-	129,153
Finder's warrants on convertible notes	-	-	93,229	-	-	-	93,229
Share-based payments	-	-	328,338	-	-	-	328,338
Comprehensive loss for the year	-	-	-	-	(946,981)	(5,511,925)	(6,458,906)
Balance – July 31, 2013	65,432,197	24,032,436	6,581,604	129,153	(666,181)	(24,659,311)	5,417,701
Issued during the year:							
For cash pursuant to exercise of options	890,000	97,900	-	-	-	-	97,900
Pursuant to conversion of convertible loan	3,681,816	432,458	-	(27,458)	-	-	405,000
Pursuant to interest on convertible loan	1,269,999	133,350	-	-	-	-	133,350
Transfer on exercise of options	-	28,228	(28,228)	-	-	-	-
Transfer on maturity of convertible notes	-	-	101,695	(101,695)	-	-	-
Share-based payments	-	-	32,512	-	-	-	32,512
Comprehensive loss for the year	-	-	-	-	623,892	(2,170,171)	(1,546,279)
Balance – July 31, 2014	71,274,012	24,724,372	6,687,583	-	(42,289)	(26,829,482)	4,540,184

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

1. Nature of operations

Terra Nova Energy Ltd. (the “Company” or "Terra Nova") was incorporated under the British Columbia Business Corporations Act. The Company’s principal business is the acquisition and exploration of petroleum and natural gas properties. The Company’s shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol “TGC”, the Frankfurt Stock Exchange under the symbol “GLTN” and the OTCQX marketplace under the symbol “TNVMF”. The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

2. Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. Carrying values as shown in these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

At July 31, 2014, the Company had not yet achieved profitable operations, had a working capital deficiency of $1,375,005 including convertible notes totalling $1,500,000 which were due and payable on June 28, 2014 (subsequently extended to December 28, 2014) and expects to incur further losses in the development of its business. The Company requires significant further funding to continue to develop its oil and gas exploration and evaluation interests and to continue its operations. These factors may cast significant doubt upon the Company’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management believes that the use of the going concern assumption is appropriate for these financial statements. Management believes that the Company will be able to obtain additional financing, through the issuance of either shares or debt to fund continuing operations and exploration and development activities. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

3. Basis of presentation

These consolidated financial statements, including comparatives have been prepared using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments recorded at fair value through profit and loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

Unless otherwise stated, all dollar amounts are in Canadian dollars. The notation “A$” represents Australian dollars and “US$” represents US dollars.

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of consolidation

The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Details of subsidiaries are as follows:

(Expressed in Canadian Dollars)

		Percentage owned	
	Incorporated in	**July 31, 2013**	**July 31, 2012**
Terra Nova Resources Inc.	Canada	100%	100%
Terra Nova Holdings (Australia) Pty. Ltd.	Australia	100%	100%
Terra Nova Energy (Australia) Pty. Ltd.	Australia	100%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Cash and cash equivalents

Cash and equivalents include cash on hand, deposits held with banks and short-term highly liquid investments with original maturities of less than 90 days.

Property, plant and equipment ("PP&E") and exploration and evaluation interests

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Pre-license costs are recognized in the statement of loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized initially as exploration and evaluation interests. The costs are accumulated in cost centers by well, field or exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is generally considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, E&E expenditures attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation interests to PP&E.

Development and production costs

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of PP&E, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in profit or loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs will be estimated taking into account the level of development required to produce the reserves. These estimates will be reviewed by independent reserve engineers at least annually.

Other corporate assets are recorded at cost on acquisition and amortized on a declining-balance basis at rates of 20 percent to 50 percent per year.

Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation interests and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Exploration and evaluation interests are assessed for impairment when they are reclassified to PP&E and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into cash-generating units ("CGU"). The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell.

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 of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. Any goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. Exploration and evaluation interests are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of PP&E and exploration and evaluation interests, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Decommissioning and restoration provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration or development of a property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, along with a corresponding liability as soon as the legal or constructive obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the asset operates.

Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates or changes in applicable discount rates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

Financial assets

All 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 at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

Earnings per share

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

Foreign currencies

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is Canadian dollars. The functional currency of Terra Nova Energy Ltd. and Terra Nova Resources Inc. is the Canadian dollar and the functional currency of Terra Nova Holdings (Australia) Pty. Ltd. and Terra Nova Energy (Australia) Pty Ltd. is the Australian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are charged to the statement of (loss) income.

The balance sheet of each subsidiary is translated into Canadian dollars using the exchange rate at the balance sheet date and the income statement is translated into Canadian dollars using the average exchange rate for the period. All gains and losses on translation of a subsidiary from the functional currency to the presentation currency are charged to other comprehensive income.

Income tax

Income tax on the income or loss for the periods presented comprises current and deferred tax. Income tax is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income 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 its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

For equity offerings of units consisting of a common share and another equity instrument, the Company uses the relative fair value method to allocate the value of the unit to the value of the components.

Share-based payments

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the expected forfeiture rate, is recognized over the vesting period of the options. Stock options granted to non-employees are measured at the estimated value of services received. Warrants issued to brokers are measured at the estimated value of services received on the grant date and are recognized as a deduction from equity and credited to contributed surplus.

Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

4. Changes in accounting policies including initial adoption

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2013.

The following new standards, amendments and interpretations that have been adopted for the Company's current fiscal year have not had a material impact on the Company:

- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosure of Interests in Other Entities"
- IFRS 13 "Fair Value Measurement"
- IAS 1 "Presentation of Financial Statements" amendments

5. Accounting standards issued but not yet effective

The following new standard has been issued but not yet applied.

IFRS 9 – Financial Instruments: Classification and Measurement. IFRS 9 introduces new requirements for the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

IAS 32 – Financial instruments, Presentation. IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The amendments apply to annual periods beginning on or after January 1, 2014. The change in accounting standard will not have a significant impact on the Company's consolidated financial statements.

IAS 36 – Impairment of Assets. IFRS 36 was amended by *recoverable amount disclosures for nonfinancial assets.* The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The change in accounting standard will not have a significant impact on the Company's consolidated financial statements

IFRIC 21 – Levies. IFRIC 21 clarifies and provides guidance on when to recognize the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The change in accounting standard is not expected to have a significant impact on the Company's consolidated financial statements.

6. Critical accounting estimates and judgements

The preparation of financial statements requires management to use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates.

Critical accounting estimates:

(i) Convertible notes are separated into their liability and equity components on the consolidated statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability, based upon non-convertible debt issued by comparable issuers, and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for debt with similar terms at the time of issue. Refer to Note 10 for further details.

(Expressed in Canadian Dollars)

Significant judgements:

(i) The Company's assets are aggregated into cash generating units for the purpose of calculating impairment. Cash generating units ("CGU") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgement in regards to geographical proximity, geology, production profile, shared infrastructure and similar exposure to market risk and materiality. Based on this assessment, the Company's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

(ii) The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found.

(iii) The functional currency of each entity is determined by management based on the currency that most impacts the business of the relevant entity. The factors considered by management include the volume of purchases in a particular currency and the currency that cash is held in.

(iv) The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year. The factors considered by management are disclosed in Note 2.

(v) Management assesses exploration and evaluation interests for impairment when facts and circumstances suggest that the carrying amount of any such assets may exceed their recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company shall measure, present and disclose any resulting impairment.

7. Receivables

	July 31, 2014 $	July 31, 2013 $
Recoverable taxes	5,228	502,695
Receivable from farmors for seismic and overhead	620,695	517,146
Allowance for doubtful accounts	(409,487)	--
Total receivables	216,436	1,019,841

8. Exploration and evaluation interests

Exploration and evaluation interests consist of the following:

	July 31, 2014 $	July 31, 2013 $
Holloman Farm-in Agreement acquisition costs	835,582	835,582
Seismic expenditures – PEL 112	3,846,295	3,846,295
Seismic expenditures – PEL 444	3,365,125	3,223,844
Drilling expenditures – PEL 112	3,818,124	2,676,277
Other expenditures	202,316	28,021
Restoration obligations	34,941	34,941
Contributions from farmors	(522,369)	(522,369)
Recoverable from farmors	(209,113)	(493,009)
Write-downs	(5,445,266)	(4,176,277)
Effects of translation of foreign accounts	(33,154)	(526,538)
	5,892,481	4,926,767

(Expressed in Canadian Dollars)

a) Farm-in Agreement

On May 11, 2012, as amended on May 29, 2013, the Company entered into an oil and gas farm-in agreement to secure the right to earn up to a 55% working interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses ("PEL"), known as PEL's 112 and 444 (the "Farm-in Agreement"). The purchase price paid for the E&E rights included cash payments that totaled $351,165 (US$350,000), 1,000,000 common shares having a market value of $250,000 and transaction costs including directly attributable due diligence and legal fees of $235,448.

The salient terms of the Farm-in Agreement require staged payments into trust against earn-in obligations as follows:

Earn-in Obligation stage	Due date	Trust account payment A$	Working interest earned on completion
Seismic	Paid	4,700,000	20%
Initial 3 – Well Program	Paid	4,500,000	5.8333% per well
Option 3 – Well Program	45 days after completion of the initial 3 –Well Program	4,500,000	5.8333% per well
Total		13,700,000	Up to 55%

The above referenced working interests cover interests earned in both PEL 112 and 444.

The above referenced trust account payments with respect to each of the Initial and Option Well Programs are to cover estimated total dry-hole costs for each Program. The Company is liable for any dry hole cost overruns incurred pursuant to the Initial 3 - Well Program and up to a maximum of the first A$4,500,000 and 55% thereafter in dry-hole costs incurred pursuant to the Option 3 - Well Program. Completion, equipping and costs to tie into a hydrocarbon gathering system (if available) shall be borne by Terra Nova as to 50% and by the Farmors as to 50%. Under the terms of the Farm-in Agreement, Terra Nova shall be entitled to 80% of the revenues earned from each of the wells drilled under the Initial Well Program and the Option Well Program until such time as it shall have recovered 100% of costs associated with the drilling and completion of each respective well, otherwise known as "payout".

Any trust funds remaining on account at the end of each of the above three phases shall be applied first as to the funding of any succeeding trust obligation and in the event that Terra Nova elects not to proceed with any of the succeeding phases, any unspent trust funds shall be for the account of the Company. Notwithstanding anything in the joint operating agreement, Terra Nova shall act as operator of the PEL's and shall have the exclusive right to propose to carry out all exploration and development work on these properties, including without limitation seismic work area clearance, Seismic Earn-in Obligation, the Initial Well Program, the Option Well Program and the completion and subsequent operation of any wells.

The Farm-in Agreement also contains various provisions in clauses for such matters as site restoration and non-participation that are typical in the oil and gas exploration industry.

b) Seismic Projects

On May 11, 2012, the Company paid the initial A$4,700,000 into trust to cover initial seismic acquisition requirements for each of PEL 112 and 444 and the interpretation of the acquired data. Any amounts incurred pursuant to the Seismic Earn-in Obligation in excess of A$4,700,000 shall be borne by Terra Nova as to 55% and by the Farmors as to 45%. As at July 31, 2014, the balance of seismic funds in the trust account amounted to A$Nil (2013 – A$Nil).

At July 31, 2013, the Company had completed the seismic acquisition requirements for PEL 112 and accordingly, the Company earned a 20% interest in PEL 112. During the year ended July 31, 2014, the Company earned a 20% interest in PEL 444 on completion of the seismic acquisition requirements.

At July 31, 2014, the Company had incurred A$7,103,107 ($7,211,420) of the Seismic Earn-in Obligation. The Farmors are obligated to pay for 45% of Seismic Earn-in Obligation in excess of A$4,700,000. In July 2013, the Company received contributions of A$523,259 from one of the Farmors. At July 31, 2014, the Company has recorded a receivable of A$558,273 ($565,419) from the Farmors. Subsequent to July 31, 2014, the Company collected A$193,844 from one of the Farmors. At July 31, 2014, the Company recognized an allowance for doubtful accounts of A$404,312 ($409,487).

c) Initial 3 - Well Program Earn-in Obligation

On October 31, 2012, the Company had made the A$4,500,000 payment due pursuant to the Initial 3 Well Program Earn-in Obligation. On May 29, 2013, pursuant to an amending agreement, A$500,000 was advanced to the seismic trust account. As at July 31, 2014, the balance of drilling funds in the trust account amounted to A$46,914 ($47,515) (2013 - A$1,747,658 ($1,610,642)).

During the year ended July 31, 2014, the Company completed one well at PEL 112 and accordingly, the Company earned an additional 5.8333% interest in PEL 112 and PEL 444. At the date these financial statements were approved by the Board, November 25, 2014, the Company had a 25.8334% interest in PEL 112 and PEL 444.

d) Impairment

During the year ended July 31, 2014, the Company completed one well at PEL 112. The well resulted in a dry hole and the well was plugged and abandoned. At July 31, 2013, the Company recorded a write-down of $4,176,277. During the year ended July 31, 2014, the Company recorded an additional write-down of $1,141,846 based on ongoing drilling expenditures and $127,143 as a result of the area of PEL 112 being reduced on renewal of the PEL.

e) Contingencies and commitments

Although the Company believes that it has title to its E&E interests, and has taken reasonable precautions appropriate in the circumstances, it cannot control or completely protect itself against the risk of title disputes or challenges.

Under South Australian State law, the transfer of E&E interests may be subject to assessment of a 5.5% stamp duty. As at July 31, 2012, the Company had recorded a provision of $105,000 (A$100,000) which was included in accounts payable and accrued liabilities. During the year ended July 31, 2013, the Company received notice from the South Australia Department of Treasury and Finance that the amount due for stamp duty was $nil. Accordingly, the provision was reversed during the year ended July 31, 2013 resulting in $105,000 being removed from accounts payable and accrued liabilities.

f) Decommissioning Obligation

The Company recorded a current obligation of A$35,000 for the abandonment and restoration of the dry hole at PEL 112.

(Expressed in Canadian Dollars)

g) Exchange Gain (Loss) on Translation of E&E Interests

As all of the Company's E&E interests are held in Australia by Terra Nova Energy (Australia) Pty Ltd. whose functional currency is the Australian dollar, in accordance with IFRS relating to the translation of foreign operations (see Note 3), the E&E interests were translated to Canadian dollars at the balance sheet date. The impact of such foreign translation has been included in other comprehensive income.

9. Accounts payable and accrued liabilities

	July 31, 2014 $	July 31, 2013 $
Trade payables	89,804	987,032
Amounts due to related parties (Note 13)	121,219	112,791
Interest payable on convertible notes (Note 10)	12,500	15,875
Total accounts payable and accrued liabilities	223,523	1,115,698

10. Convertible notes

	Liability Component $	Equity Component $
Balance – July 31, 2012	-	-
Amount at date of issue	1,775,847	129,153
Loan placement expenses	(106,151)	-
Amortization of loan placement expenses	8,845	-
Accretion	10,471	-
Balance – July 31, 2013	1,689,012	129,153
Amortization of loan placement expenses	97,306	-
Accretion	118,682	-
Conversion of $405,000	(405,000)	(27,458)
Expiry of conversion feature of $1,500,000	-	(101,695)
Balance – July 31, 2014	1,500,000	-

On June 28, 2013, the Company issued convertible notes for the principal sum of $1,905,000. The convertible notes bore interest at 10% per annum and were originally scheduled to be repaid on June 28, 2014. The convertible notes were convertible at the option of the holder into common shares of the Company at a conversion price of $0.11 per share.

For accounting purposes, the convertible notes were separated into its liability and equity components. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the convertible notes assuming an 18% effective interest rate which was the estimated rate for convertible notes without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible notes and the fair value of the liability component.

In connection with the convertible notes, the Company incurred $12,922 in legal and filing fees. In addition, the Company issued an aggregate of 818,181 finder's warrants entitling the holder thereof the right to purchase a common share at a price of $0.11 per share up to June 28, 2014. The warrants expired unexercised. The Company valued the finder's warrants at $93,229 using the Black-Scholes option pricing model. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.20; exercise price of $0.11; expected volatility of 100%; expected life of 1 year; a risk-free interest rate of 0.78%; and an expected dividend rate of nil. The aggregate loan placement expenses of $106,151 were recorded against the liability component and were amortized to the statements of comprehensive loss over the original contractual term of the convertible notes.

During the year ended July 31, 2014, the Company recorded interest expense of $187,125, accretion expense of $118,682 and amortization of loan placement expenses of $97,306.

On July 2, 2014, $405,000 of the convertible notes were converted into 3,681,816 common shares of the Company. On June 28, 2014, $1,500,000 convertible notes matured and the convertible notes became due on demand. On October 6, 2014, the term of the convertible notes was extended to December 28, 2014 with all other terms of the original convertible notes remaining the same.

On July 24, 2014, the Company issued 1,269,999 common shares of the Company at the fair value of $133,350 as settlement of $190,500 of interest on the convertible notes. The Company recorded a gain on debt settlement of $57,150.

11. Share capital

a) Authorized:

An unlimited number of common shares without par value.

b) Financings:

During the year ended July 31, 2014, the Company did not complete any financings. During the year ended July 31, 2013, the Company completed the following financings:

i) On October 31, 2012, the Company completed the first tranche of a non-brokered private placement of 3,500,000 units at a price of $0.20 per unit for gross proceeds of $700,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to October 31, 2014. The Company allocated $186,298 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.18; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

ii) On November 6, 2012, the Company completed the second tranche of a non-brokered private placement of 1,000,000 units at a price of $0.20 per unit for gross proceeds of $200,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to November 6, 2014. The Company allocated $57,610 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.18; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

iii) On November 26, 2012, the Company completed the third tranche of a non-brokered private placement of 1,550,000 units at a price of $0.20 per unit for gross proceeds of $310,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to November 26, 2014. The Company allocated $82,327 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.15; exercise price of

(Expressed in Canadian Dollars)

$0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

iv) On December 5, 2012, the Company completed the fourth tranche of a non-brokered private placement of 400,000 units at a price of $0.20 per unit for gross proceeds of $80,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to December 5, 2014. The Company allocated $22,487 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.17; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

In connection with the October 31, November 6, November 26 and December 5, 2012 private placements, the Company paid cash commissions of $64,500 and incurred $39,960 in legal and filing fees. In addition, the Company issued an aggregate of 322,500 finder's warrants entitling the holder thereof the right to purchase a common share at a price of $0.30 per share up to December 5, 2014. The Company valued the finder's warrants at $21,437 using the Black-Scholes option pricing model. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.17; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

c) Options:

The Company has established a stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant share purchase options up to 10% of its outstanding shares. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Market Price (as that term is defined in the policies of the TSX Venture Exchange). The options are for a maximum term of ten years and vest as determined by the board of directors. All options granted have vested on the grant date.

A summary of the status of the Company's stock option plan as at July 31, 2014 and 2013 and the changes during the years then ended is presented below:

	Number of options	Weighted average exercise price $
Balance outstanding – July 31, 2012	2,750,000	0.30
Granted	1,600,000	0.20
Forfeited	(550,000)	0.30
Balance outstanding – July 31, 2013	3,800,000	0.26
Granted	890,000	0.11
Exercised	(890,000)	0.11
Expired	(400,000)	0.30
Forfeited	(300,000)	0.26
Balance outstanding and exercisable – July 31, 2014	3,100,000	0.25

(Expressed in Canadian Dollars)

During the year ended July 31, 2014, the weighted average stock price on each option exercise date during that period was $0.055.

At July 31, 2014, stock options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

Expiry Date	Exercise Price $	Number of Options
November 30, 2014	0.30	500,000
May 16, 2015	0.30	600,000
July 18, 2018	0.18	1,300,000
May 16, 2022	0.30	700,000
		3,100,000

During the year ended July 31, 2014, the Company recorded share-based payments expense of $32,512 (2013 - $328,338). The weighted average fair value of stock options granted during the year ended July 31, 2014 of $0.032 per option (2013 - $0.117 per option) was estimated using the Black-Scholes option pricing model with the following assumptions:

	2014	2013
Average stock price	0.06	0.18
Average exercise price	0.11	0.20
Average risk-free interest rate	1.63%	1.52%
Expected life	4.0 years	3.7 years
Expected volatility	100%	100%
Expected dividends	$nil	$nil

The expected volatility was calculated in comparison to similar TSX Venture Exchange companies and the historical stock price of the Company since being listed.

d) Warrants:

A summary of warrants outstanding as of July 31, 2014 and 2013 and changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price $
Balance outstanding – July 31, 2012	57,249,964	0.30
Issued	7,590,681	0.28
Expired	(11,233,000)	0.30
Balance outstanding – July 31, 2013	53,607,645	0.29
Expired	(46,835,145)	0.29
Balance outstanding – July 31, 2014	6,772,500	0.30

(Expressed in Canadian Dollars)

At July 31, 2014, warrants outstanding that entitled the holder thereof to acquire one share for each warrant held are as follows:

Expiry Date	Exercise Price $	Number of Warrants
October 31, 2014	0.30	(1)3,500,000
November 6, 2014	0.30	(1)1,000,000
November 26, 2014	0.30	1,550,000
December 5, 2014	0.30	722,500
		6,772,500

(1) Subsequent to July 31, 2014, these warrants expired unexercised.

On November 16, 2012, the expiry date of 10,245,000 warrants was extended from December 30, 2012 to June 30, 2013. The amendment costs resulting from this transaction have been offset against the additional value created for the warrants.

e) Convertible notes:

The Company had outstanding convertible notes (Note 10) which were convertible into 17,318,181 common shares of the Company. On July 3, 2014, a portion of the outstanding convertible notes were converted into 3,681,816 common shares of the Company. The conversion feature of the remaining convertible notes expired on June 28, 2014. Subsequent to July 31, 2014, the convertible notes were extended to December 28, 2014 with all other terms of the original convertible notes remaining the same, including re-instating the conversion right.

f) Basic and diluted loss per share:

During the year ended July 31, 2014, potentially dilutive common shares totaling 9,872,500 (2013 – 74,725,826) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

12. Income Taxes

A reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax expense (recovery) for the years ended July 31, 2014 and 2013 is as follows:

	2014	2013
Statutory tax rate	26.00%	25.56%
	$	$
Loss for the year before income taxes	(2,170,171)	(5,511,925)
Expected income tax recovery	(564,000)	(1,409,000)
Tax rate adjustments and foreign exchange differences	(670,000)	(1,267,000)
Non-deductible items and other	251,000	236,000
Unrecognized benefit of tax attributes	983,000	2,440,000
Income tax expense (recovery)	-	-

The increase from 2013 to 2014 was due to the phase-in of an increase in the BC provincial income tax rate enacted in 2013.

(Expressed in Canadian Dollars)

The significant components of the recognized deferred income tax assets (liabilities) as at July 31, 2014 and 2013 are as follows:

	2014 $	2013 $
Resource property costs	(3,418,000)	(2,858,000)
Tax loss carryforwards	3,418,000	2,858,000
Total	-	-

The significant components of deductible temporary differences for which no deferred income tax assets have been recognized as at July 31, 2014 and 2013 are as follows:

	2014 $	2013 $
Tax loss carryforwards	10,536,000	8,385,000
Share issue and financing costs	619,000	932,000
Resource property costs tax basis in excess of net book value	8,865,000	8,865,000
Other	473,000	516,000
Total unrecognized deferred income tax assets	20,493,000	18,698,000

All deferred tax assets and liabilities are estimated to be recovered after more than 12 months.

At July 31, 2014, the Company had non capital losses in Canada of approximately $5.2 million (2013 - $4.7 million) which may be available to offset future income for income tax purposes which expire in various years from 2015 to 2034. At July 31, 2014, the Company had tax losses in Australia of approximately $11.2 million (2013 - $8.6 million) which may be carried forward indefinitely and applied against future assessable income.

13. Related party transactions

During the years ended July 31, 2014 and 2013, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or were significant shareholders of:

	2014 $	2013 $
Non-audit accounting fees	42,876	79,030
Legal fees	11,011	3,575
Management fees	186,309	498,464
Office and miscellaneous fees	-	65,568
Exploration and evaluation interests – management and consulting fees	181,541	468,311
	421,737	1,114,948

At July 31, 2014, accounts payable and accrued liabilities included $121,219 (2013 - $112,791) of amounts owing to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

In addition to the related parties disclosed above, $33,000 of the convertible notes (Note 10) are related party transactions as they were transactions entered into with directors of the Company.

Key management includes the current and former Chief Executive Officer, the current and former Chief Financial Officer, the former Chief Operating Officer and the current and former directors of the Company. The compensation paid or payable to key management for services during the years ended July 31, 2014 and 2013 is identical to the table above other than share-based payments expense. During the years ended July 31, 2014, key management received share-based payments of $32,512 (2013 - $289,432).

On January 8, 2013, the Company entered into a Mutual Release and Settlement Agreement with the former Chief Executive Officer (the "Severance Agreement"). In accordance with the Severance Agreement, the Company paid $100,000 and issued 400,000 common shares at the fair value of $116,000. In addition, 600,000 stock options entitling the holder thereof the right to purchase one common share at a price of $0.30 per share up to May 16, 2022 were amended such that the options vested immediately and the expiry date was changed to May 16, 2015.

On May 3, 2013, the Company entered into a Debt Settlement Agreement with Apex Energy Consultants Inc., a company controlled by the former Chief Operating Officer, to settle accounts payable and accrued liabilities of $193,097 by making cash payments totalling $98,083 and issuing 875,000 common shares of the Company at the fair value of $87,500. In addition, 500,000 stock options entitling the holder thereof the right to purchase one common share at a price of $0.30 per share up to May 16, 2022 were amended such that the options vested immediately and the expiry date was changed to November 30, 2014.

14. Financial instruments

Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of its assets and to maintain a flexible capital structure that optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of amounts attributable to shareholders and the convertible notes, net of cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is dependent on the capital markets as its primary source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's project in relation to these markets, and its ability to compete for investor support of its project.

There were no changes in the Company's approach to capital management during the year ended July 31, 2014. The Company is not subject to any capital requirements imposed by a regulator. Additional information regarding capital management is disclosed in Note 2.

Classification of Financial Instruments

The Company's financial instruments consist of cash, cash held-in-trust, receivables, accounts payable and accrued liabilities and convertible notes. The Company designated its cash, cash held-in-trust and receivables as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities and the liability component of the convertible notes are classified as other financial liabilities, which are measured at amortized cost.

Discussions of risks associated with financial assets and liabilities are detailed below:

Foreign Exchange Risk
Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. A portion of the Company's financial assets and liabilities are denominated in Australian dollars. The Company monitors this exposure, but has no hedge positions. As at July 31, 2014 and 2013, the Company had exposure to Australian dollars as follows:

	2014 A$	2013 A$
Cash	78,161	286,502
Cash held-in-trust	46,914	1,747,658
Receivable from farmors	211,208	561,140
Accounts payable and accrued liabilities	(5,497)	(982,578)
Net exposure to Australian dollars	330,786	1,612,722

At July 31, 2014, a 1% change in the value to the Australian dollar as compared to the Canadian dollar would result in a change in other comprehensive loss and equity attributable to shareholders of approximately A$3,000.

Credit Risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash held with banks and financial institutions as well as receivables from farmors. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with a financial institution. The receivables from farmors is due from various third parties. Subsequent to July 31, 2014, the Company collected a portion of the receivables.

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Except to the extent that the balance of cash held-in trust is earning interest, the Company has no financial instruments that could otherwise be exposed to interest rate risk.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by maintaining sufficient cash to enable settlement of transactions on the due date. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained (see Note 2).

15. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the year ended July 31, 2014 the following transactions were excluded from the statement of cash flows:

a) exploration and evaluation interest expenditures of $134 included in accounts payable and accrued liabilities at July 31, 2014, less expenditures included in accounts payable at July 31, 2013 of $903,489 (net inclusion of $903,355);

b) exploration and evaluation interest of $155,932 included in receivables at July 31, 2014, less amounts included in receivables at July 31, 2013 of $455,130 (net exclusion of $299,198);

(Expressed in Canadian Dollars)

c) the issuance by the Company of 3,681,816 common shares on the conversion of $405,000 of convertible notes; and,

d) the issuance by the Company of 1,269,999 common shares at the fair value of $133,350 pursuant to the settlement of interest payable on the convertible notes.

During the year ended July 31, 2013 the following transactions were excluded from the statement of cash flows:

a) exploration and evaluation interest expenditures of $903,489 included in accounts payable and accrued liabilities at July 31, 2013, less expenditures included in accounts payable at July 31, 2012 of $164,911 (net exclusion of $587,052);

b) exploration and evaluation interest of $455,130 included in receivables at July 31, 2013;

c) the issuance by the Company of 322,500 agent warrants at the fair value of $21,437;

d) the issuance by the Company of 818,181 finder's warrants at the fair value of $93,229; and,

e) the issuance by the Company of 875,000 common shares at the fair value of $87,500 pursuant to the settlement of accounts payable and accrued liabilities.

16. Geographic Information

Management has presented segmented information on a geographical basis. Geographic segment information of the Company's assets as at July 31, 2014 and 2013 is as follows:

	2014 $	2013 $
Canada	41,474	404,310
Australia	6,257,681	7,850,357
Total assets	6,299,155	8,254,667

Geographic segmentation of the Company's loss during the years ended July 31, 2014 and 2013 is as follows:

	2014 $	2013 $
Canada	(832,388)	(1,494,973)
Australia	(1,337,783)	(4,016,952)
Loss	(2,170,171)	(5,511,925)

Geographic segmentation of the Company's capital expenditures during the years ended July 31, 2014 and 2013 is as follows:

	2014 $	2013 $
Australia	2,223,300	8,117,288
Total capital expenditures	2,223,300	8,117,288

17. Subsequent events

Additional subsequent events are disclosed in Note 11(d).

Convertible Notes

On October 6, 2014, the convertible notes (Note 10) were extended to December 28, 2014 with all other terms of the original convertible notes remaining the same.

Stock Options

On October 31, 2014, the Company granted 4,325,000 stock options to directors, officers and consultants of the Company at an exercise price of $0.18 per share up to October 31, 2019.