EastSiberian Plc

(formerly PetroKamchatka Plc)

Consolidated Financial Statements

For the year ended May 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of EastSiberian Plc (formerly PetroKamchatka Plc):

We have audited the accompanying consolidated financial statements of EastSiberian Plc ("the Company"), which comprise the consolidated statements of financial position as at May 31, 2013 and May 31, 2012, the consolidated statements of 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 the Company as at May 31, 2013 and May 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company has a working capital deficiency, no positive cash flow and there is a need to raise capital in the very near term. These conditions, along with other matters set forth in note 2, indicate the existence of a material uncertainty that cast significant doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Accountants

Calgary, Canada
September 27, 2013

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EastSiberian Plc
(formerly PetroKamchatka Plc)
Consolidated Statements of Financial Position
(United States Dollars)

	Note		May 31, 2013		May 31, 2012
Assets					
Current assets:					
Cash and cash equivalents		$	424,368	$	229,460
Cash held in trust	6		-		896,100
Accounts receivable			117,222		132,515
Prepaid expenses			3,641		25,478
Property and equipment held for resale	6		-		903,466
Investment in drilling rig held for resale	6		-		1,588,479
Total assets		$	**545,231**	$	**3,775,498**
Equity (Deficiency)					
Share capital	9	$	91,806,942	$	91,806,942
Contributed surplus	9		5,760,482		5,760,482
Foreign currency translation reserve			265,286		266,967
Deficit			(98,758,752)		(97,142,873)
Total equity (deficiency)			**(926,042)**		**691,518**
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	12	$	1,371,273	$	1,807,880
Convertible note payable	7		100,000		-
Cash held in trust	6		-		896,100
Provisions	8		-		380,000
Total liabilities			**1,471,273**		**3,083,980**
Going concern	2				
Total equity and liabilities		$	545,231	$	3,775,498

ON BEHALF OF THE BOARD

“signed”
Maxim Sidorin

“signed”
Graeme Phipps

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

EastSiberian Plc

(formerly PetroKamchatka Plc)
Consolidated Statements of Comprehensive Loss
Years ended May 31, 2013 and 2012
(United States Dollars)

	Note		**2013**		**2012**
Expenses:					
Operating expenses		$	-	$	645,087
General and administrative expenses			1,645,802		2,983,523
Share-based compensation	9		-		33,321
Depreciation	6		-		1,633,151
Impairment	5,6		-		3,913,308
Loss before finance and income taxes			1,645,802		9,208,390
Finance costs (income):					
Foreign exchange (gain) loss			(110,003)		81,502
Current income taxes	10		80,080		-
Net loss			**1,615,879**		**9,289,892**
Other comprehensive loss					
Foreign exchange differences on translation of foreign operations			1,681		51,270
Revaluation of property and equipment	6		-		1,559,919
Other comprehensive loss			**1,681**		**1,611,189**
Total comprehensive loss for the year		**$**	**1,617,560**	**$**	**10,901,081**
Net loss per share:					
Basic and diluted		$	(0.33)	$	(1.89)
Weighted average number of common shares outstanding					
Basic and diluted	11		4,903,998		4,903,998

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

EastSiberian Plc

(formerly PetroKamchatka Plc)
Consolidated Statements of Changes in Equity
Years ended May 31, 2013 and 2012
(United States Dollars)

	Note	Share Capital	Share Purchase Warrants	Contributed Surplus	Foreign Currency Translation Reserve	Revaluation Reserve	Deficit	Total Equity
Balance at June 1, 2011		**$91,806,942**	**$1,186,971**	**$ 4,540,190**	**$ 318,237**	**$ 1,559,919**	**$(87,852,981)**	**$11,559,278**
Net loss for the year		-	-	-	-	-	(9,289,892)	(9,289,892)
Unexercised warrants	9c	-	(1,186,971)	1,186,971	-	-	-	-
Revaluation of property and equipment		-	-	-	-	(1,559,919)	-	(1,559,919)
Foreign currency translation		-	-	-	(51,270)	-	-	(51,270)
Share-based compensation	9d	-	-	33,321	-	-	-	33,321
Balance at May 31, 2012		**$91,806,942**	**$ -**	**$ 5,760,482**	**$ 266,967**	**$ -**	**$(97,142,873)**	**$ 691,518**
Balance at June 1, 2012		**$91,806,942**	**$ -**	**$ 5,760,482**	**$ 266,967**	**$ -**	**$(97,142,873)**	**$ 691,518**
Net loss for the year		-	-	-	-	-	(1,615,879)	(1,615,879)
Foreign currency translation		-	-	-	(1,681)	-	-	(1,681)
Balance at May 31, 2013		**$91,806,942**	**$ -**	**$ 5,760,482**	**$ 265,286**	**$ -**	**$(98,758,752)**	**$ (926,042)**

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

EastSiberian Plc

(formerly PetroKamchatka Plc)
Consolidated Statements of Cash Flows
Years end May 31, 2013 and 2012
(United States Dollars)

	2013	2012
Cash flows from operating activities:		
Net loss for the year	$ (1,615,879)	$ (9,289,892)
Adjustments for:		
Depreciation	-	1,633,151
Share-based compensation	-	33,321
Shares issued for services performed	-	-
Unrealized foreign exchange loss (gain)	(3,539)	(10,359)
Impairments	-	3,913,308
Change in:		
Accounts receivable	15,294	120,152
Prepaid expenses	21,837	1,593
Accounts payable and accrued liabilities	(436,609)	235,733
Provisions	(380,000)	(415,451)
Net cash (used in) operating activities	(2,398,896)	(3,778,444)
Cash flows from investing activities:		
Proceeds from disposition of assets held for sale	1,595,945	-
Additions to property and equipment	-	(30,915)
Proceeds from disposition held in trust		896,100
Cash held in trust	896,100	(896,100)
Net cash from (used in) investing activities	2,492,045	(30,915)
Cash flows from financing activities:		
Convertible note payable	100,000	-
Net cash from financing activities	100,000	-
Net increase (decrease) in cash and cash equivalents	193,149	(3,809,359)
Cash and cash equivalents beginning of year	229,460	4,045,212
Effect of exchange rate fluctuations on cash held in foreign currencies	1,759	(6,393)
Cash and cash equivalents end of year	**$ 424,368**	**$ 229,460**

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

1. Reporting entity:

EastSiberian Plc (formerly PetroKamchatka Plc) (the "Corporation") was incorporated on December 23, 2008 under the Companies (Jersey) Law 1991. The head office of the Corporation is located at 9 Esplanade, St. Helier, Jersey, JE23QA. The Corporation has principally been engaged in exploration for oil and natural gas in Kamchatka, Russia which activity was conducted pursuant to exploration licenses granted to Russian subsidiaries and affiliates of its wholly-owned Cyprus subsidiary, PetroKamchatka Resources Ltd. ("PKR"). On August 22, 2012, shareholders of the Corporation approved a name change from PetroKamchatka Plc to EastSiberian Plc. In addition, the shareholders approved a consolidation of the Corporation's common shares of 100 to 1. The number of shares issued and outstanding, number of warrants and stock options presented in these consolidated financial statements represent post consolidation quantities.

The Corporation has the following subsidiaries and affiliates:

		Percentage of Ownership	
Name of Subsidiary or Affiliate	Country of Incorporation	May 31, 2013	May 31, 2012
PetroKamchatka Resources Ltd.	Cyprus	100%	100%
OJSC LukinCholot	Russia	90%	90%
CJSC Kehta-Exploration	Russia	*Wound up*	100%
CJSC Kingi-Exploration	Russia	*Wound up*	100%
CJSC Palana-Exploration (1)	Russia	100%	100%
CJSC Tvayan-Exploration	Russia	*Wound up*	100%
CJSC Tigil Exploration (affiliate)	Russia	50%	50%
CJSC Icha Exploration (affiliate)	Russia	50%	50%
PetroKamchatka Services Inc.	Canada	100%	100%
Nabesche River Exploration Ltd.	Canada	100%	100%

(1) – wound up post year end.

PKR owns 90% of OJSC LukinCholot ("LukinCholot") which in turn owned owns 50% of the shares of CJSC Tigil Exploration and CJSC Icha Exploration (the "joint interest entities"). PKR is the direct owner of the other subsidiaries. KNOC Kamchatka Petroleum Limited ("KKPL"), a company owned 55% by Korea National Oil Corporation ("KNOC"), owns the other 50% of the joint interest entities. This effectively provides the Corporation with an indirect, net 45% interest in the joint interest entities and the joint venture ("Joint Venture"). The other 10% of LukinCholot is owned by the Koryakia Property Fund (the "Fund"), an investment agency of the Koryakia Okrug Administration, Kamchatka. The Fund's indirect beneficial interest in the joint interest entities is 5%, being 10% of 50%. LukinCholot and KKPL split the cost to carry the 5% interest of the Koryakia Okrug Administration, which means that the Corporation pays 47.5% of costs and KKPL pays 52.5%. On August 11, 2009, PKR increased its percentage ownership in LukinCholot

from 85% to 90%. This effectively increased the Corporation's indirect share of costs from 46.25% prior to August 2009 to 47.5% after July 2009.

2. Going concern:

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will realize its assets and discharge its liabilities in the normal course of operations.

At May 31, 2013, the Corporation had a working capital deficiency of $926,042 had an accumulated deficit of $98,758,752 and expects to incur further losses in the development of its business. The Corporation has no positive cash flow and there is a significant risk associated with the Corporation's ability to raise additional capital. The working capital deficit and the need to raise capital in the very near term create a material uncertainty as to the Corporation's ability to continue as a going concern.

Management believes the going concern assumption to be appropriate for these consolidated financial statements as the Corporation was discussing with potential investors to examine existing producing properties and other development opportunities in Russia. Due to the lack of funding progress to date and the Corporation's liquidity position, management is considering, and may be required to, delist its common shares from TSXV or move the listing to the NEX exchange, further reduce ongoing costs and pursue alternative investment options for the Corporation. **However, it is unable to meet its obligations without a significant capital injection and significant doubt exists about the Corporation's ability to continue as a going concern.** If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to adjust the carrying value of assets and liabilities, and reported expenses.

3. Basis of preparation:

The Corporation prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on IFRS in effect as at May 31, 2013.

The Board of Directors of the Corporation approved the consolidated financial statements on September 27, 2013.

Functional and Presentation Currency

The consolidated financial statements are presented in United States dollars ("USD"). The functional currency is the United States dollar for the Jersey parent company and its Cyprus subsidiary. For the Russian subsidiaries and affiliates, the functional currency is the Russian Rouble. For the subsidiaries located in Canada, the functional currency is the Canadian dollar.

Use of Assumptions, Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make assumptions, judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized at the time the estimates are revised. Estimates of recoverable quantities of proven and probable reserves, if any, including estimates and assumptions regarding future commodity prices, exchange rates, discount rates, production volumes and timing of production, production and transportation costs can affect various calculations including: the impairment of assets; decommissioning obligations; the economic feasibility of exploration and evaluation assets; and the amounts reported for depletion (if any), depreciation and amortization of property and equipment and exploration and evaluation assets.

In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of future reserves, production rates, oil and natural gas prices, costs, discount rates and other relevant assumptions. In determining the fair value of property and equipment and its investment in drilling rig, the Corporation may rely on independent evaluations of these assets, changing market conditions, location of equipment and transportation cost estimates, in addition to managements estimates based on information currently available.

The Corporation would, if applicable in the future, estimate decommissioning obligations for oil and natural gas wells and associated production facilities and pipelines. Usually, the removal of assets and remediation occurs many years into the future. Amounts recorded for decommissioning obligations and related accretion expense require judgmental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities that will be required, the engineering methodology and future removal technologies for estimating cost, and liability specific discount rates to determine the present value of these cash flows.

Accounting for exploration and evaluation assets requires management to make certain estimates and assumptions as to future events and circumstances as to whether economic quantities of reserves have been found, if any.

The amounts recorded for share-based compensation are based on share price and estimates of expected volatility, forfeiture rates, performance factors and risk-free interest rates.

The Corporation is subject to income taxes in a number of tax jurisdictions. The tax amount expected to be settled and the actual amount can change over time, depending on the facts and circumstances. The recognition of deferred tax assets, if any, is based on assumptions about future taxable profits.

By their nature, these estimates and assumptions are subject to measurement uncertainty. The effect on the consolidated financial statements of changes in such estimates in future periods could be material.

4. Significant accounting policies:

(a) Basis of Measurement:

These consolidated financial statements have been prepared on a historical cost basis except as noted below.

(b) Basis of consolidation:

(i) ***Subsidiaries:***

These consolidated financial statements include the accounts of EastSiberian Plc and its subsidiaries. Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) ***Joint-interest entities***:

In Russia, exploration licenses are granted to Russian entities only. Some of the Corporation's previous exploration activities were conducted on a joint venture basis with an unrelated joint venture partner. LukinCholot owns 50% of the shares of two Russian entities. The unrelated joint venture partner, KKPL, owns the other 50%. The consolidated financial statements include the Corporation's proportionate share of the accounts of the joint-interest entities.

(iii) ***Transactions eliminated on consolidation***:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(c) Financial instruments:

Financial Assets:

Financial assets include cash and cash equivalents and accounts receivable. At the time of initial recognition, financial assets are recognized at fair value, normally being the transaction price plus, in the case of financial assets not at fair value, through profit or loss directly attributable to transaction costs.

The subsequent measurement of financial assets depends on their classification. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at 'amortized cost' using the effective interest rate method if the time value of money is significant. Gains and losses

are recognized in income when the loans and receivables are de-recognized or impaired as well as through the amortization process.

A financial asset is classified and measured at amortized cost if it is held with the objective of holding in order to collect contractual cash flows and the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Financial assets other than those qualifying for amortized cost measurement are classified as fair value through profit or loss and measured at fair value with all changes in fair value recognized in profit or loss.

Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been negatively affected.

Financial Liabilities:

At the time of initial recognition, financial liabilities are classified at fair value measured at 'amortized cost or as financial liabilities' through profit or loss. Financial liabilities measured at 'amortized cost' include accounts payable and accrued liabilities and other liabilities, if any.

Compound financial instruments issued by the Corporation comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry. If the conversion feature in the agreement does not meet the fixed-for-fixed requirement and the amount of debt converted or equity to be issued varies based on change in other factors, the conversion feature is considered to be an embedded derivative.

(d) Property and equipment:

Property and equipment located in Russia was reclassified to assets held for sale and therefore the mobile drilling rig; drill pipe and collars; spare parts and other drilling rig equipment; other oilfield service equipment; materials and other were reclassified to current assets as at May 31, 2012. Property and equipment and the investment in the drilling rig, prior to being classified as held for sale, were measured at fair value less accumulated depletion, depreciation and amortization and accumulated impairments. Capitalized costs include the purchase price or construction cost of the asset, any costs directly attributable to

bringing the asset into operation, the initial estimate of decommissioning obligations, if any, and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of the finance lease, if any, is also included in property and equipment.

A gain arising on remeasurement is recognized in profit or loss to the extent the gain reverses a previous impairment loss on the specific equipment; any remaining gain is recognized in other comprehensive income and presented in the revaluation reserve in equity. A loss is recognized in other comprehensive income and presented in the revaluation reserve in equity to the extent that an amount had previously been included in the revaluation reserve relating to the specific equipment; any remaining loss is recognized immediately in profit or loss.

An asset within 'property and equipment' is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is de-recognized.

Depreciation of equipment was based on the estimated useful lives of the assets as follows:

Asset class	Expected Life	Method	Residual
Mobile drilling rig	7 years	Straight-line	20%
Drill pipe and collars	5 years	Straight-line	-
Spare parts and other drilling rig equipment	5 years	Straight-line	-
Other oilfield service equipment	5 years	Straight-line	10%
Materials and other	2 years	Straight-line	-
Office furniture and equipment	3 years	Straight-line	-

Corporate assets primarily consisted of office furniture and equipment which were stated at cost less accumulated depreciation where depreciation was determined on a straight-line basis over three years and assumes no residual value.

(e) Assets held for sale:

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as 'held for sale' if their carrying amounts are expected to be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as 'held for sale' are measured at the lower of the carrying amount and fair value less estimated costs to sell, with impairments recognized as an

expense in the statement of loss in the period measured. Assets 'held for sale' are presented in current assets within the consolidated statement of financial position. Assets 'held for resale' are not depreciated, depleted or amortized.

(f) Impairment of financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. 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.

(g) Foreign currency translation and operations:

The assets and liabilities of foreign operations are translated to United States dollars at exchange rates at the reporting dates.

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the respective functional currency at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are measured at fair value and translated to the functional currency at the exchange rate at the date that the fair value was determined. Realized foreign currency differences are recognized in profit or loss.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve ("Translation Reserve") in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are

considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the Translation Reserve in equity.

(h) Share-based compensation:

All share-based transactions are settled with equity instruments. Transactions with non-employees are measured at the fair value of goods or services received unless such cannot be estimated reliably in which case the measurement is based upon the fair value of the equity instruments granted. For transactions with parties other than employees the measurement date is the date the Corporation received the goods or services.

The Corporation has a share option plan for employees, consultants, officers and directors.

Fair value is determined using the Black-Scholes option pricing model. The cost is recognized as 'share-based compensation' expense with a corresponding increase in equity (contributed surplus) over the vesting period which ends on the date on which the recipient becomes fully entitled to the stock option awarded.

The expense is recognized over the vesting period based on the best available estimate of the number of equity instruments expected to vest. The estimate is revised, if necessary, if subsequent information in the number of equity instruments expected to vest differs from previous estimates.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Corporation, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is remote.

(j) Income taxes:

The Corporation is subject to income taxes in a number of tax jurisdictions. Income tax expense comprises current and deferred portions. Current tax is expected tax payable on taxable income for the reporting period, using tax rates enacted or substantively enacted at the reporting date and any adjustments to the tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts

of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits only if it is probable that sufficient future taxable income will be available to utilize those temporary differences and losses.

Such deferred tax liabilities and assets are not recognized if the temporary differences arises from goodwill or from the initial recognition of assets and liabilities (other than in a business combination) in a transaction that affects neither the taxable income nor the accounting profit or from investments in subsidiaries, associates and interest in joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in profit or loss in the period the change occurs.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Income tax expense is recognized in profit or loss except to the extent it relates to a business combination, or items recognized directly in equity or other comprehensive income.

(k) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants and share options are recognized as a deduction from equity, net of any tax effects.

(l) Earnings per share:

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the net income attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the reporting period. Diluted per share amounts are calculated using the treasury stock method for equity based compensation arrangements. The treasury stock method assumes that any proceeds obtained on exercise of equity based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity based compensation arrangements and shares repurchased from the related proceeds.

(m) New standards and interpretations not yet adopted

The following pronouncements from the IASB will become effective for the Corporation's financial statements beginning on June 1, 2013.

- IFRS 10 – *Consolidated Financial Statements* - builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11 – *Joint Arrangements* – establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.
- IFRS 12 – *Disclosure of Interest in Other Entities* – provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and off balance sheet entities.
- IFRS 13 – *Fair Value Measurement* – defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.
- IAS 28 – *Investments in associate and Joint Ventures* – revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation is assessing the impact that these new standards will have on its consolidated financial statements.

5. Exploration and evaluation assets:

Geological license PTR 15209 NP was issued by the Federal Agency of Subsoil Use and bears State registration on September 10, 2011. The exploration license expires on September 10, 2016 and covers 416,400 gross hectares (4,164 km2). The work commitment required the shooting of 500 km of 2D seismic by September 10, 2014 with 200 km of this amount to be shot by September 10, 2013; the commencement of drilling of one exploration well by September 10, 2014; and the commencement of drilling a second exploration by September 10, 2016. The work commitment required approval of the exploration program by September 10, 2012. Approval of the exploration program was not submitted by September 10, 2012 and while the Corporation may apply for an extension to submit the exploration program it has decided not to do so. On December 29, 2012, the Corporation submitted an application for early relinquishment back to the Federal Agency of Subsoil Use. Acceptance of the relinquishment was received February 12, 2013.

On June 26, 2012, the Corporation entered into a farm-in agreement with an unrelated corporation, East Siberian Resources Ltd. ("ESR") of Tortola, British Virgin Islands. The Farm-in Agreement provided that the Corporation could earn up to a 51% equity interest in two wholly-

owned Cyprus subsidiaries of ESR, Elranio Holdings Ltd. ("Elranio") and Lesona Holdings Ltd. Elranio indirectly holds a 100% interest in an exploration and production license located on the eastern onshore portion of the Sakhalin Island. Lesona indirectly holds one oil production license and one exploration and production license located in Eastern Siberia. The Farm-in Agreement was expired on March 31, 2013, due to unsuccessful fund raising initiatives. The Company is currently engaged with potential investors examining existing producing properties and other development opportunities in Russia that may be a viable alternative to the farm-in agreement (note 2).

6. Held for resale properties:

Property and equipment held for resale:

At May 31, 2012, property and equipment consisted of a mobile drilling rig and other exploration equipment. On April 26, 2012, the Corporation entered into an agreement to sell all of the property and equipment for proceeds totaling RUR 31,000,000 or approximately $926,000. At May 31, 2012 the Corporation had received partial payment for the sale amounting to $896,100, which were held in trust. The sale closed on June 28, 2012 upon receipt of the balance of the funds owing.

Investment in drilling rig held for resale:

The Corporation owned a 46.25% interest in a drilling rig, delivered new in November 2008 and stored since delivery in a bonded export facility in Shanghai, China. It was determined that this rig was not suited for the Russian drilling program for which it was originally intended. An impairment of $2,548,781 and revaluation adjustment of $296,950 was recognized at May 31, 2012 to reduce the carrying value of the investment in drilling rig to $1,588,479. At May 31, 2012, the rig was available for immediate sale which sale occurred in the first quarter of fiscal year 2013.

		Property and equipment	Mobile Drilling Rig
Balance at June 1, 2011	$	5,133,198	4,434,210
Additions		30,915	-
Depreciation		(1,633,151)	-
Impairment		(1,364,527)	(2,548,781)
Revaluation adjustment		(1,262,969)	(296,950)
Balance at May 31, 2012	$	903,466	1,588,479
Disposition		(903,466)	(1,588,479)
Balance at May 31, 2013	$	-	-

7. Convertible note payable:

On August 26, 2012, the Corporation signed a one year non-interest bearing convertible note in the amount $100,000 with N&M Capital Limited, a corporation controlled by an officer and director of the Corporation. The holder and the Corporation may convert all or any portion of the note into post-consolidation common shares at a price of CAD 0.50 per post-consolidation common share.

The conversion feature in this agreement does not meet the fixed-for-fixed requirement and the amount of debt converted or equity to be issued varies based on change in currency, the conversion feature is considered to be an embedded derivative. The fair value of the derivative is negligible and classified as a liability.

8. Provisions:

	Joint Venture Wind-up
Balance, May 31, 2011	$ 795,451
Provisions made during the year	380,000
Payments made during the year	(795,451)
Balance, May 31, 2012	380,000
Payments made during the year	(380,000)
Balance, May 31, 2013	$ -

The operating agreement with the Corporation's joint venture partner expired with the relinquishment of the Icha exploration license in March 2011. The estimate of the Corporation's share of costs to wind-up the Joint Venture was $795,451 at May 31, 2011. During the year ended May 31, 2012, the Corporation recorded a further provision of $380,000 for its share of additional wind-up costs. During the year ended May 31, 2013, the Corporation incurred wind-up expenditures of $380,000 for its share of additional wind-up costs. It is expected the wind-up of the Joint Venture will be completed by November 30, 2013, and the Corporation's share of the estimated operational costs to complete the liquidation are considered to be immaterial and no additional provision has been recorded for these costs.

Subsequent to May 31, 2012 the Corporation's Joint Venture partner initiated a joint venture audit. At September 27 2013, an audit of the joint venture expenditures is currently in progress and any receivable owed to or liability owed by the Corporation is not known. The Corporation believes any such amounts, if any, will be insignificant and will be recorded when known.

9. Share Capital:

(a) Authorized:

An unlimited number of common shares and an unlimited number of preferred shares.

(b) Common shares issued and outstanding:

	May 31, 2013		May 31, 2012	
	Number	Amount	Number	Amount
Share capital, beginning and end of period	4,903,998	$ 91,806,942	4,903,998	$ 91,806,942

On August 22, 2012 the shareholders of the Corporation approved a share consolidation of 100 to 1, which is reported retroactively.

(c) Share purchase warrants:

At May 31, 2013, there were no share purchase warrants outstanding. During the year ended May 31, 2012, 195,170 share purchase warrants expired unexercised.

(d) Stock options:

There were no stock options granted or exercised during the year ended May 31, 2013 or the year ended May 31, 2012. Effective August 31, 2012, all stock option holders agreed to forfeit their options, which were subsequently cancelled. As at May 31, 2013, the Corporation had no outstanding stock options.

10. Income taxes:

The Corporation carries on business in Jersey, Cyprus, Russia and Canada. In these jurisdictions where corporate income taxes apply, the allocations of loss carry forwards would offset any tax expense.

In the year ended May 31, 2013, a Russian subsidiary of the Corporation sold its interest in a mobile drilling rig and other exploration equipment for proceeds of approximately $926,000 (note 6). Income tax associated with the disposition amounted to $86,867. An income tax provision of $3,000 relating to operations in Canada was recorded in the year ended May 31, 2013 less a recovery of $9,787 provision for the year ended May 31, 2012.

	2013	2012
Current income tax	$ 80,080	$ -
Deferred income tax	-	-
Income taxes	$ 80,080	$ -

The income tax provision differs from the amount that would be obtained by applying the Corporation's May 31, 2013 income tax rate of 0% (May 31, 2012 - 0%). The main differences between expected and actual tax provisions are as follows:

	May 31, 2013	May 31, 2012
Net loss before taxes	$ (1,535,799)	$ (9,289,892)
Tax rate	0%	0%
Expected income tax	–	–
Change in tax rate due to operating jurisdiction and other	57,891	(2,154,949)
Utilization of previously unrecognized tax losses	(19,540)	–
Change in unrecognized tax assets	41,728	2,154,949
Income taxes	$ 80,080	$ –

Unrecognized deferred tax assets

	May 31, 2013	May 31, 2012
Non-capital loss carried forward	$ 6,497,575	$ 6,475,386
Property and equipment	515,335	515,335
Unrecognized deferred tax assets	$ 7,012,909	$ 6,990,720

Deferred tax assets have not been recognized as the Corporation and its subsidiaries and affiliates have no history of generating taxable earnings.

The Corporation has Russian tax losses of approximately $31.9 million (2012 - $31.8 million) expiring between the years 2015 and 2022. The Corporation also has Canadian non-capital losses of approximately $448,397 (2011 - $426,000) expiring between the years 2027 and 2032. The tax losses are based on the Corporation's tax filings, which are subject to audit and potential reassessment and are restricted in use to the jurisdictions to which they arose. The final results are not reasonably determinable at this time and management believes that it has adequately provided for current and future income taxes. Upon the liquidation of any of the Corporation's subsidiaries and affiliates any applicable unrecognized deferred tax asset will be relinquished.

11. Loss per share:

The exercise prices of all options and warrants were out-of-the-money compared to market prices at May 31, 2012 and impact of options and warrants was anti-dilutive.

12. Related parties transactions and key management remuneration:

The Corporation considers its directors and executives to be key management personnel. Compensation attributed to key management personnel comprising salaries and directors fees for the year ended May 31, 2013 was $759,401 (May 31, 2012 - $914,283). At May 31, 2013, there was $799,651 (May 31, 2012 - $402,709) owing to directors and officers for services performed in the normal course of operations. Subsequent to May 31, 2012, the directors and officers signed agreements to accept common shares of the Corporation at CAD 0.50 per share for $799,651 of the amount owing at May 31, 2013. The agreements are subject to regulatory approval.

On August 26, 2012, the Corporation signed a one year non-interest bearing convertible note in the amount $100,000 with N&M Capital Limited, a corporation controlled by an officer and director of the Corporation (note 7).

13. Financial instruments and risk management:

(a) Capital management:

As an exploration company, the Corporation's operations are financed principally through shareholders' equity. The Corporation's objectives when managing capital are to: continue as a going concern and raise equity or find alternative capital to fund the working capital deficit and future operations (note 2).

(b) Fair values:

The fair value of the Corporation's financial instruments, including cash and cash equivalents, accounts receivable, convertible note payable, accounts payable and accrued liabilities approximated their carrying values as at May 31, 2013 and May 31, 2012.

(c) Financial instrument risk exposure and management:

The Corporation is exposed to various risks associated with its financial instruments. These risks are categorized as market risk, credit risk and liquidity risk.

(i) Market risk:

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns.

(ii) Commodity risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also

reduce the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. In the future, the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation does not have any oil or gas production and did not have any risk management contracts in place as at or during the years ended May 31, 2013 and May 31, 2012, or thereafter.

(iii) Foreign currency risk:

The Corporation is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in foreign currencies. The Corporation incurs expenditures in Russian rubles, Pound sterling, Euros and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There were no exchange rate contracts in place as at or during the years ended May 31, 2012 or May 31, 2013, or thereafter.

(iv) Credit risk:

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable. There is low credit risk on accounts receivable which consist of accounts receivable from the Corporation's joint ventures. At May 31, 2013 and May 31, 2012, the Corporation's receivables were current.

(v) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's financial liabilities consist of convertible note payable, accounts payable and accrued liabilities. Accounts payable consists primarily of invoices payable to trade suppliers or professionals for services rendered (Note 2).