EastSiberian

EastSiberian Plc

Consolidated Financial Statements

For the year ended May 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of EastSiberian 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, 2014, May 31, 2013, and June 1, 2012 the consolidated statements of comprehensive loss, changes in equity and cash flows for the year ended May 31, 2014 and 2013, 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, 2014, May 31, 2013, and June 1, 2012 and its consolidated financial performance and its consolidated cash flows for the year ended May 31, 2013 and 2014 in accordance with International Financial Reporting Standards.

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

September 22, 2014
Calgary, Canada

EastSiberian Plc

Consolidated Statements of Financial Position
as at May 31, 2014, May 31, 2013 and June 1, 2012
(United States Dollars)

	Note		May 31, 2014		May 31, 2013		June 1, 2012
					Note 3		Note 3
Assets							
Cash and cash equivalents		$	48,009	$	423,122	$	188,471
Accounts receivable			47,998		117,222		132,515
Prepaid expenses			-		3,641		25,478
Cash held in trust			-		-		896,100
Property and equipment held for resale	12		-		-		903,466
Investment in equity accounted investees	3, 12		-		-		1,588,479
Total assets		$	**96,007**	$	**543,985**	$	**3,734,509**
Shareholders Deficiency							
Share capital	5, 7	$	91,906,942	$	91,806,942	$	91,806,942
Contributed surplus			5,760,482		5,760,482		5,760,482
Foreign currency translation reserve			1,539		265,478		266,967
Deficit			(98,801,800)		(98,586,787)		(96,897,492)
Total deficiency			**(1,132,837)**		**(753,885)**		**936,899**
Liabilities							
Accounts payable and accrued liabilities	6, 11	$	1,228,844	$	1,197,870	$	1,521,510
Convertible note payable	7, 11		-		100,000		-
Cash held in trust			-		-		896,100
Provisions			-		-		380,000
Total liabilities			**1,228,844**		**1,297,870**		**2,797,610**
Going concern	2						
Total equity and liabilities		$	**96,007**	$	**543,985**	$	**3,734,509**

ON BEHALF OF THE BOARD

“signed”
Maxim Sidorin

“signed”
Graeme Phipps

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

EastSiberian Plc

Consolidated Statements of Comprehensive Loss
Years ended May 31, 2014 and 2013
(United States Dollars)

	Note		2014		2013 Note 3
Expenses:					
General and administrative expenses		$	639,750	$	1,521,890
Other items:					
Loss on equity accounted investees	12		89,166		199,762
Other income	8		(26,340)		-
Foreign exchange loss (gain)			17,467		(112,437)
Settlement of accrued liabilities	6		(238,296)		-
Foreign exchange differences realized from other comprehensive income	9		(266,734)		-
Loss before income taxes			215,013		1,609,215
Current income taxes	10	$	-	$	80,080
Net loss			**215,013**		**1,689,295**
Other comprehensive loss (income)					
Foreign exchange differences on translation of foreign operations			(2,795)		1,489
Foreign exchange differences reclassified to income	9		266,734		-
Other comprehensive loss			**263,939**		**1,489**
Total comprehensive loss for the year		**$**	**478,952**	**$**	**1,690,784**
Net loss per share:					
Basic and diluted		$	(0.04)	$	(0.34)
Weighted average number of common shares outstanding					
Basic and diluted			4,959,340		4,903,998

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

EastSiberian Plc

Consolidated Statements of Changes in Equity
Years ended May 31, 2014 and 2013
(United States Dollars)

		Share capital	Contributed surplus	Foreign Currency Translation Reserve	Deficit	Total Equity (Deficiency)
Balance at June 1, 2012	**Note**	**91,806,942**	**5,760,482**	**266,967**	**(96,897,492)**	**936,899**
Net loss		-	-	-	(1,689,295)	(1,689,295)
Foreign currency translation		-	-	(1,489)	-	(1,489)
Balance at May 31, 2013		**91,806,942**	**5,760,482**	**265,478**	**(98,586,787)**	**(753,885)**
Net loss		-	-	-	(215,013)	(215,013)
Shares issued	5, 7	100,000	-	-	-	100,000
Foreign currency translation		-	-	(263,939)	-	(263,939)
Balance at May 31, 2014		**91,906,942**	**5,760,482**	**1,539**	**(98,801,800)**	**(1,132,837)**

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

EastSiberian Plc

Consolidated Statements of Cash Flows
Years end May 31, 2014 and 2013
(United States Dollars)

		2014	2013 Note 2
Cash flows from operating activities:			
Net loss		$ (215,013)	$ (1,689,295)
Adjustments for:			
Settlement of accrued liabilities		(238,296)	-
Foreign exchange differences realized from other comprehensive income		(266,734)	-
Loss on equity accounted investees		89,166	199,762
Unrealized foreign exchange gain		4,545	4,116
Change in:			
Accounts receivable		69,224	15,294
Prepaid expenses		3,641	21,837
Accounts payable and accrued liabilities		269,270	(323,640)
Provisions		-	(380,000)
Net cash (used in) operating activities		(284,197)	(2,151,926)
Cash flows from investing activities:			
Investments in equity accounted investees		(89,166)	(207,228)
Cash distribution from equity accounted investees		-	1,595,945
Proceeds from disposition held in trust		-	896,100
Net cash from investing activities		(89,166)	2,284,817
Cash flows from financing activities:			
Convertible note payable	6	-	100,000
Net cash from financing activities		-	100,000
Net increase (decrease) in cash and cash equivalents		(373,363)	232,892
Cash and cash equivalents beginning of year		423,122	188,471
Effect of exchange rate fluctuations on cash held in foreign currencies		(1,750)	1,759
Cash and cash equivalents end of year		**$ 48,009**	**$ 423,122**

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

1. Reporting entity:

EastSiberian 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").

The Corporation has the following subsidiaries and affiliates:

		Percentage of Ownership	
Name of Subsidiary or Affiliate	Country of Incorporation	May 31, 2014	May 31, 2013
PetroKamchatka Resources Ltd.	Cyprus	100%	100%
OJSC LukinCholot	Russia	90%	90%
CJSC Palana-Exploration	Russia	*Wound up*	100%
CJSC Tigil Exploration	Russia	50%	50%
CJSC Icha Exploration	Russia	50%	50%
PetroKamchatka Services Inc.	Canada	100%	100%
Nabesche River Exploration Ltd.	Canada	*Wound up*	100%

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, 2014, the Corporation had a working capital deficiency of $1,132,837 and an accumulated deficit of $98,801,800 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 had discussions with potential investors with regards to properties and other development opportunities in Central America. **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 Board of Directors of the Corporation approved the consolidated financial statements on September 22, 2014.

Adoption of new policies

Effective June 1, 2013 the Corporation adopted the following standards and amendments:

IFRS 10 - Consolidated financial statements; IAS 27 - Separate financial statements

IFRS 10 replaces all the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements, and SIC-12, Consolidation – special purpose entities. Full retrospective application is required in accordance with the transition provisions of the standard, unless impracticable, in which case the group applies it from the earliest practicable date.

IAS 27 was amended following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.

The Corporation has applied the above standards retrospectively. The above standards did not result in changes to the Corporation's financial statements.

IFRS 11 - Joint Arrangements

IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. Under IAS 31 entities had the choice to proportionately consolidate or equity account for interests in jointly controlled entities. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting whereas for a joint operation the venturer must recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

The Corporation has re-evaluated its involvement in CJSC Tigil Exploration and CJSC Icha Exploration and classified them as a joint venture (note 12). Accordingly, under IFRS 11, the Corporation has applied equity method accounting to the investment at June 1, 2012. Previously, these investment were accounted for using proportionate consolidation.

The following table summarizes the adjustments made to Corporation's statements of financial position at June 1, 2012 and May 31, 2013, and its statements of comprehensive loss and cash flows for the year ended May 31, 2013 as a result of the application of the equity method of CJSC Tigil Exploration and CJSC Icha Exploration.

Statement of Financial Position

	June 1, 2012		
United States Dollars	As previously reported	Adjustments	As restated
Assets			
Cash and cash equivalents	229,460	(40,989)	188,471
Cash held in trust	896,100	-	896,100
Accounts receivable	132,515	-	132,515
Prepaid expenses	25,478	-	25,478
Property and equipment held for resale	903,466	-	903,466
Investment in equity accounted investees	-	1,588,479	1,588,479
Investment in drilling rig held for resale	1,588,479	(1,588,479)	-
Total assets	**3,775,498**	**(40,989)**	**3,734,509**
Shareholders Deficiency			
Share capital	91,806,942	-	91,806,942
Contributed surplus	5,760,482	-	5,760,482
Foreign currency translation reserve	266,967	-	266,967
Deficit	(97,142,873)	245,381	(96,897,492)
Total deficiency	**691,518**	**245,381**	**936,899**
Liabilities			
Accounts payable and accrued liabilities	1,807,880	(286,370)	1,521,510
Cash held in trust	896,100	-	896,100
Provisions	380,000	-	380,000
Total liabilities	**3,083,980**	**(286,370)**	**2,797,610**
Total equity and liabilities	**3,775,498**	**(40,989)**	**3,734,509**

Statement of Financial Position	**May 31, 2013**		
United States Dollars	As previously reported	Adjustments	As restated
Assets			
Cash and cash equivalents	424,368	(1,246)	423,122
Accounts receivable	117,222	-	117,222
Prepaid expenses	3,641	-	3,641
Total assets	**545,231**	**(1,246)**	**543,985**
Shareholders Deficiency			
Share capital	91,806,942	-	91,806,942
Contributed surplus	5,760,482	-	5,760,482
Foreign currency translation reserve	265,286	192	265,478
Deficit	(98,758,752)	171,965	(98,586,787)
Total deficiency	**(926,042)**	**172,157**	**(753,885)**
Liabilities			
Accounts payable and accrued liabilities	1,371,273	(173,403)	1,197,870
Convertible note payable	100,000	-	100,000
Total liabilities	**1,471,273**	**(173,403)**	**1,297,870**
Total equity and liabilities	**545,231**	**(1,246)**	**543,985**

Statement of Cash flows	**2013**		
United States Dollars	As previously reported	Adjustments	As restated
Net cash (used in) operating activities	(2,398,896)	246,970	(2,151,926)
Net cash from investing activities	2,492,045	(207,228)	2,284,817
Net cash from financing activities	100,000	-	100,000
Overall impact on cash and cash equivalents		**39,743**	

Statement of Comprehensive Loss		**2013**	
United States Dollars	As previously reported	Adjustments	As restated
Expenses:			
General and administrative expenses	1,645,802	(123,912)	1,521,890
Other items:			
Loss on equity accounted investees	-	199,762	199,762
Foreign exchange loss (gain)	(110,003)	(2,434)	(112,437)
Loss before income taxes	1,535,799	73,416	1,609,215
Current income taxes	80,080	-	80,080
Net loss	**1,615,879**	**73,416**	**1,689,295**
Other comprehensive loss			
Foreign exchange differences on translation of foreign operations	1,681	(192)	1,489
Other comprehensive loss	**1,681**	**(192)**	**1,489**
Total comprehensive loss (income) for the period	**1,617,560**	**73,224**	**1,690,784**

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.

The Corporation has expanded its disclosures about its interest in subsidiaries and equity-accounted investees.

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.

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) ***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.

(iii) ***Equity accounted investees***:

Investments where the Company does not have control but has significant influence are equity accounted (note 3).

(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.

(d) 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.

(e) Foreign currency translation and operations:

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 are translated to United States dollars at exchange rates at the reporting dates.

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 related to foreign operations 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.

(f) 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.

(g) 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.

(h) Earnings per share:

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the net income (loss) 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.

(i) New standards and interpretations not yet adopted

The following pronouncement from the IASB will become effective for the Corporation's financial statements beginning on June 1, 2019.

- IFRS 9 –*Financial Instruments* - IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The Corporation has not assessed the impact of IFRS 9 on the financial statements.

5. Share Capital:

(a) Authorized:

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

(b) Common shares issued and outstanding:

	Number	Amount
Share capital at May 31, 2013 and May 31, 2012	4,903,998	$ 91,806,942
Note payable converted to shares (note 7)	200,000	$ 100,000
Share capital at May 31, 2014	5,103,998	$91,906,942

(c) Share purchase warrants:

At May 31, 2014 and 2013, there were no share purchase warrants outstanding.

(d) Stock options:

There were no stock options outstanding at May 31, 2014 and 2013.

6. Accounts payable and accrued liabilities:

During the year ended May 31, 2014 the Corporation reversed accrued liabilities of $238,296 that related to liabilities that have been discharged.

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 could convert all or any portion of the note into common shares at a price of $0.50 per common share. During the year ended May 31, 2014, the note was converted into 200,000 common shares.

8. Other income:

During the year ended May 31, 2014 the Corporation sold fully amortized office furniture and equipment for $26,340.

9. Gain on foreign exchange differences transferred from other comprehensive income:

During the year ended May 31, 2014 the Corporation reclassified accumulated foreign exchange differences related to the subsidiaries liquidated during the year (note 1) and subsidiaries in Russia to be liquidated in the foreseeable future.

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.

	2014	2013
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, 2014 income tax rate of 0% (May 31, 2013 - 0%). The main differences between expected and actual tax provisions are as follows:

	May 31, 2014	May 31, 2013
Net loss before taxes	$ (215,013)	$ (1,609,215)
Tax rate	0%	0%
Expected income tax	–	–
Change in tax rate due to operating jurisdiction and other	(9,282)	57,891
Tax pools lost on subsidiaries wind-up	548,212	–
Utilization of previously unrecognized tax losses	–	(19,540)
Change in unrecognized tax assets	(635,396)	41,729
Other	96,466	–
Income taxes	$ –	$ 80,080

Unrecognized deferred tax assets

	May 31, 2014	May 31, 2013
Non-capital loss carried forward	$ 6,355,324	$ 6,497,575
Property and equipment	-	515,335
Unrecognized deferred tax assets	$ 6,355,324	$ 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 $31.7 million (2013 - $31.6 million) expiring between the years 2015 and 2023. The Corporation also has Canadian non-capital losses of approximately $78,579 (2013 - $448,397) expiring between the years 2027 and 2033. 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. 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, 2014 was $348,979 (May 31, 2013 - $759,401). At May 31, 2014, there was $1,148,629 (May 31, 2013 - $799,651) owing to directors and officers for services performed in the normal course of operations. The Corporation intends to pay off the accounts payable to management and directors and officers by converting this amount owed into the Corporation's common shares.

During the year ended May 31, 2014 the convertible note payable which was held by a corporation controlled by a director of the Corporation was converted into 200,000 common shares (note 7).

12. Investments in joint ventures / equity accounted investees

PKR owns 90% of OJSC LukinCholot ("LukinCholot") which in turn owns 50% of the shares of CJSC Tigil Exploration and CJSC Icha Exploration (the "joint ventures"). KNOC Kamchatka Petroleum Limited ("KKPL"), a company owned 55% by Korea National Oil Corporation ("KNOC"), owns the other 50% of the joint ventures. This effectively provides the Corporation with an indirect, net 45% interest in the joint ventures. 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 ventures 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%.

The Corporation and KNOC jointly owned 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. At May 31, 2012, the rig was available for immediate sale for $1,588,479 which sale occurred in the first quarter of fiscal year 2013.

		2014	2013
Investments at beginning of the year	$	-	1,588,479
Investments in the year		89,166	207,288
Share of gain (loss) for the year		75,469	(199,762)
Cash distribution from joint ventures		-	(1,595,945)
Impairment		(164,635)	-
Investments at end of the year	$	-	-

Summarized is the financial information of joint ventures is provided below.

		May 31, 2014	May 31, 2013
Cash and cash equivalents	$	4,976	2,624
Accounts payable and accrued liabilities		(20,809)	(365,059)
Loans from shareholders		(130,761,814)	(130,574,096)
Net liabilities	**$**	**(130,777,647)**	**(130,936,531)**

13. Financial instruments and risk management:

(a) Capital management:

As an exploration company, the Corporation's operations are financed principally through shareholders' equity. Accounts payable included $1,148,629 owing to directors and officers which is intended to be converted to common shares. The Corporation will need capital to continue operations or to wind down the Corporation (note 2).

(b) Fair values:

The fair value of the Corporation's financial assets and liabilities, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximated their carrying values as at May 31, 2014 and May 31, 2013.

(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, 2014 and May 31, 2013, 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, 2014 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. At May 31, 2014 and May 31, 2013, 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 accounts payable and accrued liabilities. Accounts payable consists primarily of amounts owing to directors and officers for unpaid compensation (note 11).