

PETROMIN RESOURCES LTD.

Consolidated Interim Financial Statements

Period ended December 31, 2013

Unaudited – Prepared by Management

PETROMIN RESOURCES LTD.

Consolidated Interim Financial Statements

Period Ended December 31, 2013

(Unaudited)

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NOTICE

The accompanying unaudited consolidated interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors. The Company's independent auditors have not performed a review of these financial statements.

PETROMIN RESOURCES LTD.

Consolidated Interim Statements of Financial Position
(Unaudited)

	December 31 2013	September 30 2013
Assets		
Current		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable (Note 6)	112,645	256,815
	112,645	256,815
Non-current		
Prepaid expenses	8,139	8,139
Long-term equity investment (Note 7)	1,009,801	1,010,186
Exploration and evaluation assets (Note 9)	-	-
Equipment	9,143	9,055
Oil and Gas Interests (Note 10)	1,436,384	1,485,953
Total assets	\$ 2,576,112	\$ 2,770,148
Liabilities		
Current		
Bank Overdraft	\$ 11,247	\$ 8,824
Accounts payable and accrued liabilities	1,070,422	1,177,514
Accounts payable and accrued liabilities-related parties	361,687	326,947
	1,443,356	1,513,285
Decommissioning liabilities (note)	\$ 110,023	\$ 109,503
Equity		
Share capital (Note 13)	\$ 18,359,874	\$ 18,359,874
Share-based payments reserve (Note 13)	2,036,402	1,978,264
Convertible debentures (Note 15)	630,000	630,000
Accumulated other comprehensive income	-	-
Deficit	(20,003,543)	(19,820,778)
Total equity	1,022,733	1,147,360
Total liabilities and equity	\$ 2,576,112	\$ 2,770,148

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue on February 28, 2014

"A. Ross Gorrell" Director

 "Kenny Chan" Director

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

PETROMIN RESOURCES LTD.

Consolidated Interim Statements of Changes in Equity
 For the three months ended December 31, 2013 and 2012
 (Unaudited)

	Number of shares	Share capital	Share-based payments reserve	Convertible debentures (Note 12, 20)	Deficit	Total equity
Balance, December 31, 2011	58,294,374	\$ 17,748,045	\$ 1,747,355	\$ 630,000	\$ (18,551,106)	\$ 1,574,294
Common shares issued	9,000,000	450,000	-	-	-	450,000
Share issuance costs-cash		(22,500)				(22,500)
Share issuance costs-warrants		(6,171)	6,171			-
Share-based compensation			224,738			224,738
Total comprehensive loss for the period	-	-	-	-	(717,171)	(717,171)
Balance, September 30, 2012	67,294,374	\$ 18,169,374	\$ 1,978,264	\$ 630,000	\$ (19,268,277)	\$ 1,509,361
Share-based compensation	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(23,748)	(23,748)
Balance, December 31, 2012	67,294,374	\$ 18,169,374	\$ 1,978,264	\$ 630,000	\$ (19,292,025)	\$ 1,485,613
Common shares issued	3,850,000	192,500	-	-	-	192,500
Share issuance costs-cash	-	(2,000)	-	-	-	(2,000)
Share-based compensation	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(528,753)	(528,753)
Balance, September 30, 2013	71,144,374	18,359,874	1,978,264	630,000	(19,820,778)	1,147,360
Share-based compensation	-	-	58,138	-	-	58,138
Total comprehensive loss for the period	-	-	-	-	(182,765)	(182,765)
Balance, December 31, 2013	71,144,374	18,359,874	2,036,402	630,000	(20,003,543)	1,022,733

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

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Consolidated Interim Statements of Comprehensive Loss
For the three months ended December 31, 2013 and 2012
(Unaudited)

	Three months ended December 31, 2013	Three months ended December 31, 2012
Revenue		
Petroleum and natural gas sales	\$ 243,291	\$ 107,323
Royalties	4,466	5,115
	247,757	112,438
Other	-	7,500
	247,757	119,938
Expenses		
Operating and production	194,814	74,713
General and administrative (Note 14)	112,364	94,210
Share based payments (Note 13)	58,138	-
Depletion and depreciation	50,183	10,224
	(415,499)	(179,147)
Loss on re-measurement of equity investment	(385)	(28,772)
Interest and financing charges	(14,640)	(14,453)
Gain on write-off of more than 5 years old payables	-	78,686
gain on foreign exchange	2	-
Comprehensive loss for the period	\$ (182,765)	\$ (23,748)
Basic and diluted loss per share	\$ (0.003)	\$ (0.0004)

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

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Consolidated Interim Statements of Cash Flows
For the three months ended December 31, 2013 and 2012
(Unaudited)

	Three months ended December 31, 2013	Three months ended December 31, 2012
Cash flows from (used in) operating activities		
Loss for the period	\$ (182,765)	\$ (23,748)
Add items not affecting cash		
Accretion of asset retirement obligation	520	318
Depletion and amortization	50,183	10,224
Loss on re-measurement of equity investee	385	28,772
Share base payments	58,138	-
Net changes in non-cash working capital items related to operations:		
Amounts receivable	144,170	59,120
Payable to related parties	34,740	(6,891)
Accounts payable and accrued liabilities	(41,371)	(98,817)
Net cash from (used in) operating activities	64,000	(31,022)
Cash flows from (used in) investing activities		
Acquisition of equipment	(702)	-
Project advance	-	(131,311)
Investment in oil and gas properties	(65,721)	-
Net cash from (used in) investing activities	(66,423)	(131,311)
Cash flows from (used in) financing activities		
Borrowing from the bank	2,423	8,707
Net cash from (used in) financing activities	2,423	8,707
Change in cash	-	(153,626)
Cash, beginning of period	-	153,626
Cash, end of period	\$ -	\$ -
Supplementary Cash Flow Information		
Interest paid	\$ 52	\$ 50
Income taxes paid	-	-
Supplementary Non-Cash Information		
Change in estimate relating to decommissioning liabilities	\$ -	\$ (268)
Accounts payable related to exploration and evaluation assets	-	326,866
Accounts payable related to capitalized oil and gas properties	\$ 297,447	\$ -

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

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Notes to the Consolidated Interim Financial Statements
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(Unaudited)

1. Corporate Information

Petromin Resources Ltd. (the "Company") was incorporated under the laws of British Columbia in 1985, and is a publicly traded company with its shares listed on the TSX Venture Exchange. The Company is principally engaged in the acquisition, exploration and development of interests in oil and natural gas projects in Canada.

The address of the Company's corporate office and principal place of business is #1120 – 1090 West Pender Street, Vancouver B.C., Canada, V6E 2N7.

These condensed consolidated interim financial statements comprise the financial statements of Petromin Resources Ltd. and its wholly owned subsidiaries, International King Jack Hydrocarbons Inc. and Far East Oil & Gas Ltd. All inter-company balances and transactions have been eliminated upon consolidation.

The business of exploring and developing oil and natural gas properties involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable oil and natural gas operations. The recoverability of amounts shown for capitalized exploration and development costs is dependent on the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such properties at a profit. Changes in future conditions could require material write-downs of the carrying values of oil and natural gas interests.

Although the Company has taken steps to verify title to exploration and evaluation properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

At December 31, 2013, the Company had working capital deficit of \$1,330,711 (December 31, 2012 – \$730,556) but has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the three months ended December 31, 2013, the Company reported a comprehensive loss of \$182,765 (December 31, 2012 – \$23,748) and as at December 31, 2013 had an accumulated deficit of \$20,003,543 (September 30, 2013 – \$19,820,778).

The Company has financed its exploration activities and operations through equity issuances and expects to continue to do so to the extent such instruments are issuable under terms acceptable to the Company until such time as its operations provide positive cash flows. Accordingly, the Company's financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. Management believes that the going concern assumption is appropriate for these financial statements based on their continuing ability to raise financing through share issuances. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable value of its assets may decline materially from current estimates. If the going concern assumption was not appropriate for these financial statements, then

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potentially material adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used.

The current market conditions and volatility increases the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds. These items may cast a significant doubt upon the Company's ability to continue as a going concern.

2. Basis of Presentation

a) Statement of compliance

These consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS", as issued by the International Accounting Standards Board "IASB").

These consolidated interim financial statements were authorized by the Company's Board of Directors on February 28, 2014.

The consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, and available-for-sale, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. The functional currency of the Company's wholly owned subsidiaries, International King Jack Hydrocarbons Inc. and Far East Oil & Gas Ltd. is also the Canadian dollar.

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2. Basis of Presentation (cont'd...)

c) Critical accounting estimates, judgments and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The key sources of estimation uncertainty and judgment that have a significant risk of causing material adjustment to the amounts recognized in the consolidated interim financial statements are as follows:

Critical Judgments

The preparation of these consolidated interim financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

Deferred tax assets and liabilities

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income realized, including the use of tax planning strategies.

Identification of cash generating units

Cash generating units are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructure, and the way in which management monitors the Company's operations.

Key Sources of Estimation Uncertainty

(i) Assessment of commercial reserves

Management is required to assess the level of the Company's commercial reserves together with the future expenditures required to access those reserves. These assessments are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required against producing and developed projects. By their nature, these estimates of discovered and probable crude oil and natural gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risk adjusted discount rate relevant to the asset in question, are subject to measurement

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2. Basis of Presentation (cont'd...)

uncertainty. The Company employs an independent reserves specialist who periodically assesses the Company's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Company's assets. Significant judgment is involved when determining whether there have been any significant changes in the Company's crude oil and natural gas reserves.

(ii) Share-based payments

The Company has a stock option plan for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 13 and include, among others, expected volatility, expected life of the options and number of options expected to vest.

(iii) Decommissioning liabilities

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of oil and gas interests, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

(iv) Depletion and valuation of oil and gas property

The amounts recorded for depletion of oil and gas properties and the valuation of cash-generating units of oil and gas properties are based on estimates. These estimates of proved and probable reserves, production rates, future petroleum prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Company's reserve estimates are evaluated consistent with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

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3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Company and its subsidiaries, to all periods presented in these consolidated interim financial statements.

a) Principles of consolidation

These consolidated interim financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries as described in Note 1 above. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

b) Foreign currency

The Company's functional and reporting currency is the Canadian dollar. The functional currency of the Company's subsidiaries, as described in Note 1, is also the Canadian dollar. Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at historical rates. Any gains or losses resulting from translation have been included in net loss.

c) Cash and cash equivalents

The Company considers cash and cash equivalents to include cash on deposit and highly liquid short-term interest bearing investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

d) Revenue recognition

Revenue from the sale of oil and gas is recognized when title and the risks and rewards of ownership passes to the buyer, normally at the pipeline delivery point for natural gas and at the wellhead for crude oil, and when collection is reasonably assured.

e) Exploration and evaluation assets

Costs of exploring for and evaluating oil and natural gas properties are capitalized within exploration and evaluation assets. Exploration and evaluation assets do not include costs of general prospecting or evaluation costs incurred prior to having obtained the legal right to explore an area, which are expensed as incurred.

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3. Significant Accounting Policies (cont'd...)

e) Exploration and evaluation assets (cont'd...)

Exploration and evaluation assets are not depleted or depreciated and are carried forward until technical feasibility and commercial viability is considered to be determined. The technical feasibility and commercial viability is generally considered to be determined when proved plus probably reserves are determined to exist and the commercial production of oil and gas has commenced. A review of each exploration license or field is carried out at least annually to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to oil and gas interests.

f) Oil and gas interests

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves.

For divestitures of properties, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net earnings.

g) Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of equipment, less its estimated residual value, using the declining balance method at the following rates per annum:

Leasehold improvements	20%
Computer equipment	30%
Office equipment	20%

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3. Significant Accounting Policies (cont'd...)

h) Impairment of non-financial assets

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit, the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the cash generating unit is the greater of the cash generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations and comprehensive loss.

i) Income taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded 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.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

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Notes to the Consolidated Interim Financial Statements
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(Unaudited)

3. Significant Accounting Policies (cont'd...)

j) Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

k) Segmented reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under one geographic region, being Canada.

l) Share-based payments

The Company recognizes share-based compensation expense based on the estimated fair value of the options granted. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to share capital.

m) Decommissioning Provisions

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures.

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Notes to the Consolidated Interim Financial Statements
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3. Significant Accounting Policies (cont'd...)

M) Decommissioning Provisions (cont'd...)

These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of comprehensive loss.

n) Financial instruments

All financial instruments are classified into one of five categories: fair-value-through-profit-and-loss, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments and derivatives are recognized in the consolidated statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are recognized at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Fair-value-through-profit-and-loss financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is sold or impaired.

The Company has classified its cash as fair-value-through-profit-and-loss. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are payable to related parties are classified as other financial liabilities, all of which are measured or recognized at amortized cost. The Company has no derivatives or embedded derivatives at the date of these consolidated financial statements.

The Company also provides the required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data

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3. Significant Accounting Policies (cont'd...)

o) Long-term equity investment

The Company utilizes the equity method of accounting for investments subject to significant influence. Under this method, investments are originally recorded at cost and adjusted thereafter to include the Company's pro-rata share of post-acquisition earnings or losses. Any dividends received or receivable from this investee would reduce the carrying value of the investment.

p) Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. For the years presented, comprehensive loss is the same as net loss.

4. Recent Accounting Pronouncements

- IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.
- IFRS 10 'Consolidated Financial Statements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.
- IFRS 11 'Joint Arrangements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.
- IFRS 12 'Disclosure of Interests in Other Entities' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.
- IFRS 13 'Fair Value Measurement' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.
- IAS 27 'Separate Financial Statements' – effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 'Investments in Associates and Joint Ventures' – effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IFRS 7 'Financial Instruments: Disclosures' - effective for annual periods beginning on or after January 1, 2013.
- IAS 32 'Financial Instruments: Presentation' - effective for annual periods beginning on or after January 1, 2014.

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4. Recent Accounting Pronouncements (cont'd...)

The Company is currently evaluating the impact of these new and amended standards on its financial statements. The impact is not expected to have a material impact on the consolidated statements of financial position or results of operations.

5. Cash

Cash is comprised of cash at banks and on hand. Cash at banks earn interest at floating rates based on daily bank deposit rates. The Company had no cash equivalents as at December 31, 2013, September 30, 2013, or December 31, 2012.

6. Accounts Receivable

Accounts receivable are all current and include the following:

	December 31, 2013		September 30, 2013		December 31, 2012
Accounts receivable (net of allowance)	\$ 112,645	\$	253,310	\$	242,790
GST receivable	-		3,505		1,623
	<u>\$ 112,645</u>	\$	<u>256,815</u>	\$	<u>244,413</u>

As of December 31, 2013, no allowance was estimated for doubtful accounts (December 31, 2012-\$Nil).

7. Long-term Equity Investment

Terrawest Energy Corp. ("Terrawest") is a Canadian privately owned coal bed methane development company. On November 6, 2007, the Company subscribed for 40,000,000 units of a private placement in Terrawest at a price of \$0.015 per unit, each unit consisting of one common share and one common share purchase warrant, with each full warrant exercisable into one additional common share of Terrawest for a period of two years at a price of \$0.03 per share.

On December 28, 2007, the Company purchased 700,000 preferred shares at a price of \$0.015 per share from preferred shareholders of Terrawest.

On March 18, 2009, the Company exercised warrants to purchase an additional 16,666,667 common share of Terrawest at a price of \$0.03 per share.

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7. Long-term Equity Investment (cont'd...)

On November 1, 2009, the Company exercised warrants to purchase an additional 16,666,667 common shares of Terrawest at a price of \$0.03 per share. The remaining 6,666,666 warrants expired unexercised.

As at December 31, 2013, the Company holds 22.28% (December 31, 2012 – 22.28%) interest in Terrawest, and the investment has been accounted for using the equity method of accounting. The Company recognized investment losses of \$385 (December 31, 2012 - \$28,772) for the period ended December 31, 2013. The Company has two directors in common with Terrawest.

8. Equipment

	Leasehold improvements		Computer equipment		Office equipment		Total
Cost							
Balance, December 31, 2012	\$	37,781	\$	66,203	\$	20,018	\$ 124,002
Additions		-		-		-	-
Balance, September 30, 2013		37,781		66,203		20,018	124,002
Additions		-		702		-	702
Balance, December 31, 2013	\$	37,781	\$	66,905	\$	20,018	\$ 124,704
Accumulated depreciation							
Balance, December 31, 2012	\$	(37,781)	\$	(60,471)	\$	(14,415)	\$ (112,667)
Depreciation		-		(1,395)		(885)	(2,280)
Balance, September 30, 2013		(37,781)		(61,866)		(15,300)	(114,947)
Depreciation		-		(378)		(236)	(614)
Balance, December 31, 2013	\$	(37,781)	\$	(62,244)	\$	(15,536)	\$ (115,561)
Net book value							
December 31, 2012	\$	-	\$	5,732	\$	5,603	\$ 11,335
September 30, 2013	\$	-	\$	4,337	\$	4,718	\$ 9,055
December 31, 2013	\$	-	\$	4,661	\$	4,482	\$ 9,143

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9. Exploration and Evaluation Assets

In July 2013, the newly drilled Morningside well commenced commercial production. As a result, the previously recorded exploration and evaluation assets were reclassified to Oil and Gas Interests for the year ended September 30, 2013.

	Morningside
Balance, September 30, 2011	\$ 17,253
Acquisition costs	11,734
Drilling costs	134,837
Balance, September 30, 2012	163,824
Acquisition costs	-
Drilling and completion costs	368,737
Reclassified to Oil and Gas interests (Note 10)	(532,561)
Balance, September 30, 2013	\$ -

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10. Oil and Gas Interests

	Frog Lake	Redwater North	Gibly	Morningside	Total
Balance, December 31, 2012	\$ 793,807	\$ 39,746	\$ 18,697	\$ 3,960	\$ 856,210
Reclassified from exploration and evaluation assets (note 9)	-	-	-	532,561	532,561
Expenditures	118,957	-	33,332	-	152,289
Recovery of expenditures	-	-	-	-	-
Decommissioning liability	7,434	4,272	1,805	1,796	15,307
Depletion	(56,796)	(5,854)	(6,989)	(775)	(70,414)
Balance, September 30, 2013	863,402	38,164	46,845	537,542	1,485,953
Expenditures	-	-	-	-	-
Decommissioning liability	-	-	-	-	-
Depletion	(10,263)	(707)	(4,049)	(34,550)	(49,569)
Balance, December 31, 2013	\$ 853,139	\$ 37,457	\$ 42,796	\$ 502,992	\$ 1,436,384

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11. Related Party Transactions

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

	Three month ended December 31,	
	2013	2012
Share-based compensation	\$ 33,222	\$ -
Short-term benefits*	42,600	45,600
	<u>\$ 75,822</u>	<u>\$ 45,600</u>

*include both paid and accrued base salaries pursuant to contractual employment, consulting, or management agreements. These have been recorded in wages and benefits and consulting fees.

Amounts due to related parties consist of \$361,687 (December 31, 2012 - \$210,552) to directors or officers of the Company, or to companies controlled by directors or officers of the Company.

The following transactions were carried out with other related parties:

- i) Received or accrued \$ Nil (December 31, 2012 - \$7,500) in management fees or reimbursements of expenses from Terrawest Energy Corp., a company with two directors in common, included in other income.
- ii) Included in accounts receivable at December 31, 2013 is \$Nil (December 31, 2012 - \$65, 000) due from Terrawest Energy Corp., a company with two directors in common.

The amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

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12. Decommissioning liabilities

	December 31, 2013		September 30, 2013		December 31, 2012
Balance, beginning of year	\$ 109,503	\$	93,158	\$	93,158
Change in estimate	-		15,037		(268)
Interest	520		1,308		318
Balance, end of year/period	<u>\$ 110,023</u>	<u>\$</u>	<u>109,503</u>	<u>\$</u>	<u>93,208</u>

The following assumptions were used to estimate the decommissioning liabilities:

	December 31, 2013		September 30, 2013		December 31, 2012
Total escalated future costs	\$ 125,269	\$	125,269	\$	105,150
Discount rate, per annum	2.0%		2.0%		10%
Inflation rate, per annum	1.9%		1.9%		2%

These costs are expected to be made over 10 years with the majority of the costs to be incurred between 2014 and 2023.

13. Share Capital

a) Authorized capital

The authorized share capital consists of an unlimited number of common voting shares without nominal or par value.

b) Share and warrant issuances

On June 18, 2012, the Company completed a 9,000,000 unit private placement at a price of \$0.05 per unit for total proceeds of \$450,000. Each unit is comprised of one common share and one half common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of \$0.10 until June 17, 2013. The residual value associated with the finance warrants is \$Nil. The Company incurred cash share issuance costs of \$22,500, and issued 450,000 agent warrants with a value of \$6,171 in connection with this financing. The agent warrants have an exercise price of \$0.10 and expire on June 17, 2013. At the year ended September 30, 2013, the expiration date of the common share purchase warrants was extended to June 18, 2015. The agent warrants expired on June 17, 2013.

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13. Share Capital (cont'd...)

(b) Share and warrant issuances (cont'd...)

On April 23, 2013, the Company completed a 3,250,000 unit private placement at a price of \$0.05 per unit with gross proceeds of \$162,500. Each unit is comprised of one common share and one half common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of \$0.10 until April 24, 2015. The residual value associated with the finance warrants is \$Nil. The Company incurred cash share issuance costs of \$2,000 in connection with the financing.

On May 31, 2013, the Company completed a 600,000 common share private placement at a price of \$0.05 per share with total proceeds of \$30,000. 300,000 common share purchase warrants were issued with an exercise price of \$0.10 per common share expiring October 1, 2015. The residue value associated with the finance warrants is \$Nil.

c) Warrants

The fair value of the agents' warrants issued during the years ended September 30, 2012 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

	September 30 2013	September 30 2012
Risk-free interest rate	n/a	2.41%
Expected life	n/a	1 year
Annualized volatility	n/a	119.63%
Dividend rate	n/a	0%

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13. Share Capital (cont'd...)

(C) Warrants (cont'd...)

The following is a summary of warrants outstanding:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2012	4,950,000	\$ 0.10
Issued	1,925,000	
Expired	(450,000)	0.10
Outstanding, September 30, 2013	6,425,000	\$ 0.10
Issued	-	-
Outstanding, December 31, 2013	6,425,000	\$ 0.10

The following is a summary of the outstanding warrants, with their respective expiry dates and exercise prices.

December 31, 2013			
Exercise Price	Number Outstanding	Expiry Date	Remaining Life (Years)
\$ 0.10	1,625,000	April 24, 2015	1.31
0.10	4,500,000	June 18, 2015	1.46
0.10	300,000	October 1, 2015	1.74
\$ 0.10	6,425,000		

d) Stock options

The Company has adopted an incentive stock option plan under the rules of the TSX-V pursuant to which it is authorized to grant stock options to executive officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the stock option plan, the option exercise price of any option granted shall not be less than the market price of the Company's common shares. The options can be granted for a maximum term of 5 years, and vest immediately on the date of the grant or otherwise at the discretion of the Board. The plan must be approved each year at the annual general meeting of the shareholders.

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13. Share Capital (cont'd...)

d) Stock options (cont'd...)

During the period ended December 31, 2013, the Company granted 2,450,000 stock options (December 31, 2012-Nil) at the exercise price of \$0.05 per common share.

The following weighted average assumptions were used for the Black-Scholes method of valuation of stock options granted during the periods ended December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Risk-free interest rate	1.99%	N/A
Expected life of options	5 years	N/A
Annualized volatility	123.70%	N/A
Dividend rate	0%	N/A
Forfeiture rate	0%	N/A

Stock option transactions for the three months ended December 31, 2013 and 2012 are as follow:

	Number of options	Weighted average exercise price
Balance outstanding as at December 31, 2012	4,250,000	\$ 0.11
Granted	-	-
Expired	-	-
Balance outstanding at September 30, 2013	4,250,000	\$ 0.11
Granted	2,450,000	0.05
Expired	(200,000)	0.12
Balance outstanding and exercisable as at December 31, 2013	6,500,000	\$ 0.09

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13. Share Capital (cont'd...)

d) Stock options (cont'd...)

As at December 31, 2012, the following stock options were outstanding and exercisable:

Number of Options Outstanding	Exercise Price	Expiry Date	Exercisable	Remaining Life (years)
100,000	\$ 0.20	November 27, 2014	100,000	0.90
400,000	\$ 0.20	February 19, 2015	400,000	1.15
50,000	\$ 0.13	April 19, 2015	50,000	1.29
3,500,000	\$ 0.10	September 16, 2017	3,500,000	3.70
2,450,000	\$ 0.05	October 31, 2018	2,450,000	4.83

14. Expenses by Nature

General and administration expenses for three months ended December 31, 2013 and 2012 consist of the following:

	Three months ended December 31, 2013	Three months ended December 31, 2012
Consulting fees	\$ 9,183	\$ 15,477
Filing agent and transfer fees	1,572	2,147
Office and miscellaneous	29,149	25,873
Professional fees	23,675	3,503
Travel and promotion	1,076	615
Wages and benefits	47,709	46,595
Total	<u>\$ 112,364</u>	<u>\$ 94,210</u>

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15. Convertible debenture

During the year ended September 30, 2009, the Company issued 630 subordinated unsecured convertible debentures for proceeds of \$630,000 to a company with two directors in common. Each debenture is convertible into 5,000 common shares in the capital of the Company for a price of \$0.20 per share (the "Conversion Price"). The convertible debentures mature in August 2014. Interest is payable quarterly in arrears at 9% per annum. To the extent that the right to convert the debentures is not exercised before the maturity date, each unconverted debenture will automatically convert into common shares at the Conversion Price on the maturity date. As the Company has unrestricted ability to settle the principal through the issuance of fixed number of common shares at fixed Conversion Price, the convertible debentures are classified as shareholders' equity.

December 31, 2013	September 30, 2013	December 31, 2012
\$ 630,000	\$ 630,000	\$ 630,000

16. Financial Risk Factors

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and payable to related parties. The fair value of the Company's accounts receivable, accounts payable and accrued liabilities, and payable to related parties approximate their carrying value, due to their short-term maturities or ability of prompt liquidation. The Company's other financial instrument, cash, recorded at fair value, under the fair value hierarchy, is based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. The Company's credit risk is limited to the carrying amount on the statement of financial position.

The Company's cash is held through Canadian chartered banks, which are high-credit quality financial institutions. The Company's receivables are primarily from customers operating in petroleum and natural gas industry within Canada and from related parties. The Company wrote off \$62,482 in aged accounts receivable for the year ended September 30, 2013. The Company expects credit risk with other remaining customers to be low.

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16. Financial Risk Factors (cont'd...)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash and short-term investment balances. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long term obligations. As disclosed in Note 1, the ability of the Company to continue as a going concern is dependent on many factors. The Company's cash is primarily invested in bank accounts. On December 31, 2013, the Company had current assets of \$112,645 to settle current liabilities of \$1,443,356. The Company expects to fund these liabilities through the issuance of capital stock over the coming year.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices.

a) Interest Rate Risk

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

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash is minimal because the Company's interest rate risk arises primarily from the interest received on cash and short-term investment, which is invested on a short term basis to enable adequate liquidity for payment of operational and capital expenditures.

The Company's convertible debentures bear interest at a fixed rate and therefore the Company does not have interest rate risk associated with its convertible debentures.

b) Commodity Price risk

The value of the Company's exploration and evaluation assets and oil and gas properties are dependent on the price of oil and gas. Market prices for the oil and gas historically have fluctuated widely and are affected by numerous factors outside the Company's control, including but not limited to, levels of worldwide production short term changes in supply and demand, industrial and retail demand, as well as certain other factors related specifically to oil and gas. If oil and gas prices decline for a prolonged period below the cost of production, it may not be economically feasible to continue towards production.

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16. Financial Risk Factors (cont'd...)

c) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Asia by using the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk

17. Capital Management

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor, creditor and market confidence and to sustain future development of the business.

The oil and gas properties in which the Company currently has an interest have just begun commercial operation and are currently incurring losses; as such the Company is dependent on external financing to fund its activities. In order to carry out current operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. In the management capital, the Company includes its components of shareholders' equity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company and its subsidiaries are not subject to externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the period ended December 31, 2013, or period ended 31, 2012.

18. Commitments

The Company entered into a lease agreement for its office premises commencing October 1, 2012 and ending October 1, 2015. Lease payments in the amount of \$45,468 are required as follows:

September 30, 2014	19,486
September 30, 2015	<u>25,982</u>
	<u>\$ 45,468</u>

19. Subsequent Events

There is no subsequent event for the period ended December 31 2013.