Financial Statements
December 31, 2017 and 2016

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Westcore Energy Ltd. were prepared by and are the responsibility of management. They have been prepared in conformity with International Financial Reporting Standards.

Management maintains systems of internal controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's book of accounts, that procedures and policies are adhered to and that assets are safeguarded from unauthorized use.

Davidson & Company LLP, the external auditors of the Company, conduct an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Audit Committee of Westcore Energy Ltd., comprised of a majority of independent directors, has met with representatives of Davidson & Company LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. On the recommendation of the Audit Committee, the financial statements have been approved by the Board of Directors.

Signed

Andrew Davidson
President and Chief Executive Officer

Signed

Jeff Sheppard
Chief Financial Officer

Saskatoon, Saskatchewan
April 27, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Westcore Energy Ltd.

We have audited the accompanying financial statements of Westcore Energy Ltd., which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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, these financial statements present fairly, in all material respects, the financial position of Westcore Energy Ltd. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Westcore Energy Ltd.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

April 27, 2018

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WESTCORE ENERGY LTD.

Statements of Financial Position
Expressed in Canadian Dollars

As at, December 31	2017	2016
Assets		
Current assets		
Cash	**$ 91,988**	$ 5,460
Restricted cash (Note 6)	**135,000**	-
Receivables and prepaids (Note 5)	**15,552**	2,519
Total current assets	**242,540**	7,979
Non-current assets		
Property and equipment (Note 6)	**2,474,087**	2,129,107
Total non-current assets	**2,474,087**	2,129,107
Total assets	**$ 2,716,627**	$ 2,137,086
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities		
Accounts payable and accrued liabilities (Note 8 and 17)	**$ 1,173,260**	$ 838,058
Current portion of long term debt (Note 10)	**45,179**	-
Recompletion funds received (Note 6)	**96,735**	-
Joint venture partner payable (Note 6)	**143,559**	-
Total current liabilities	**1,458,733**	838,058
Non-current liabilities		
Decommissioning liabilities (Note 9)	**1,286,923**	1,455,619
Long term debt (Note 10)	**233,421**	-
Related party advances payable (Note 17)	**721,180**	807,230
Promissory note payable (Note 6 and 17)	**66,279**	545,212
Total non-current liabilities	**2,307,803**	2,808,061
Total liabilities	**3,766,536**	3,646,119
Shareholders' equity (deficiency)		
Share capital (Note 11(a))	**14,656,767**	13,022,373
Contributed Surplus (Note 11(c))	**1,743,010**	1,422,035
Deficit	**(17,449,686)**	(15,953,441)
Total shareholders' equity (deficiency)	**(1,049,909)**	1,509,033
Total liabilities and shareholders' equity (deficiency)	**$ 2,716,627**	$ 2,137,086

Basis of presentation (Note 2)

Approved on behalf of the Board of Directors:

(signed) "Andrew Davidson" *(signed) "Tom MacNeill"*

Andrew Davidson
Director

Tom MacNeill
Director

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

WESTCORE ENERGY LTD.
Statements of Loss and Comprehensive Loss
Expressed in Canadian Dollars

For the years ended December 31,	**2017**	2016
Revenue		
Operating revenue (Note 6)	**$ 870,595**	$ 529,587
Royalties	**(119,799)**	(53,595)
	750,796	475,992
Expenses		
Accretion (Note 9)	**41,441**	31,847
Amortization and depletion (Note 6)	**164,209**	99,040
General and administrative (Note 14)	**304,643**	270,809
Operating expense	**1,734,625**	1,104,148
Share-based compensation (Note 11 and 17)	**166,300**	224,000
Impairment of evaluation and exploration assets (Note 7)	**-**	921,983
Impairment of property and equipment (Note 6)	**-**	2,309,098
	(2,411,218)	(4,960,925)
Gain on farm-out arrangement (Note 6)	**154,526**	-
Gain on disposal of property and equipment (Note 6)	**9,651**	-
Other income (Note 6)	**-**	30,000
Net loss and comprehensive loss for the year	**$ (1,496,245)**	$ (4,454,933)
Loss per common share, basic and diluted (Note 15)	**$ (0.04)**	$ (0.20)

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

WESTCORE ENERGY LTD.
Statements of Changes in Shareholders' Equity (Deficiency)
Expressed in Canadian Dollars

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total Equity (Deficiency)
January 1, 2016	**13,693,689**	**$ 11,897,373**	**$ 1,198,035**	**$(11,498,508)**	**$ 1,596,900**
Shares issued for property, and equipment	15,000,000	1,125,000	-	-	**1,125,000**
Share-based compensation	-	-	224,000	-	**224,000**
Net loss for the year	-	-	-	(4,454,933)	**(4,454,933)**
December 31, 2016	**28,693,689**	**13,022,373**	**1,422,035**	**(15,953,441)**	**(1,509,033)**
Units issued	7,333,000	634,150	465,800	-	**1,099,950**
Share issuance costs	-	(23,381)	-	-	**(23,381)**
Warrants exercised	4,750,000	1,023,625	(311,125)	-	**712,500**
Share-based compensation	-	-	166,300	-	**166,300**
Net loss for the year	-	-	-	(1,496,245)	**(1,496,245)**
December 31, 2017	**40,776,689**	**$ 14,656,767**	**$ 1,743,010**	**$(17,449,686)**	**$ (1,049,909)**

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

WESTCORE ENERGY LTD.
Statements of Cash Flows
Expressed in Canadian Dollars

For the year ended December 31,	2017	2016
Cash used in operating activities		
Operating activities:		
Net loss for the year	**$ (1,496,245)**	$ (4,454,933)
Adjustments:		
Accretion	**41,441**	31,847
Amortization and depletion	**164,209**	99,040
Accrued interest	**12,357**	27,212
Gain on farm-out arrangement	**(154,526)**	-
Gain on disposal of property and equipment	**(9,651)**	-
Impairment of exploration and evaluation assets	**-**	921,983
Impairment of property and equipment	**-**	2,309,098
Share-based compensation	**166,300**	224,000
Changes in non-cash working capital balances:		
Receivables and prepaid	**(13,033)**	53,134
Accounts payable and accrued liabilities	**528,148**	695,332
Total cash used in operating activities	**(761,000)**	(93,287)
Cash provided by (used in) financing activities:		
Share issuance	**1,099,950**	10,000
Share issuance costs	**(5,159)**	-
Proceeds from warrants exercised	**712,500**	-
Recompletion funds received	**135,000**	-
Restricted cash receipt	**(135,000)**	-
Drilling advances received	**1,600,000**	-
Drilling advances expended	**(1,303,172)**	-
Long term debt advances	**291,930**	-
Long term debt repayments	**(11,600)**	-
Related party loans and advances, net	**(761,000)**	628,680
Promissory note repayments	**(486,101)**	(982,000)
Total cash provided by (used in) financing activities	**1,137,348**	(343,320)
Cash provided by (used in) investing activities		
Property and equipment	**(375,797)**	(157,648)
Proceeds on disposal of property and equipment	**83,000**	-
Decommissioning expense	**(5,925)**	-
Exploration and evaluation expenditures	**-**	(259)
Advances from joint venture partners, net	**8,902**	-
Total cash used in investing activities	**(289,820)**	(157,907)
Total increase (decrease) in cash	**86,528**	(594,514)
Cash, beginning of the year	**5,460**	599,974
Cash, end of the year	**$ 91,988**	$ 5,460

Supplemental cash flow information (Note 18)

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

1. CORPORATE INFORMATION

Westcore Energy Ltd. ("**Westcore**" or the "**Company**") is a publicly listed company incorporated under the *Business Corporations Act* (Alberta) since March 30, 2007. The Company has been listed on the TSX Venture Exchange (the "**Exchange**") since March 12, 2008, having the symbol WTR, as a Tier 2 mining issuer. The Company is engaged in the business of acquiring, exploring, and developing resource properties in Western Canada.

The Company's head office and principal business address is Suite 602, 224 4th Avenue S, Saskatoon, Saskatchewan, S7K 5M5.

Effective May 26, 2016 the Company consolidated its share capital on the basis of 1 new share for 5 old shares. All common share, per share, option, warrant and weighted average price amounts are restated in these financial statements to reflect this consolidation.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**").

These financial statements were authorized for issue by the Board of Directors on April 27, 2018.

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2017 the Company used cash of $761,000 (2016 - $93,287) in its operations and had a net loss of $1,496,245 (2016 - $4,454,933). The ability of the Company to continue as a going concern, fund operating expenditures and provide funds for ongoing general and administrative costs is anticipated to require further equity issues in 2018. There can be no certainty that such an attempt to raise funds will be successful. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the realization of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern.

b) Basis of measurement

These financial statements have been prepared using the accrual basis of accounting, except for cash flow information. In addition, these financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

2. BASIS OF PRESENTATION – continued

b) Basis of measurement - continued

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies summarized below have been applied consistently to all periods presented in these financial statements.

a) Cash

Cash includes cash on hand, deposits held at financial institutions, trust balances, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

b) Exploration and evaluation assets

Costs incurred prior to acquiring the right to explore an area of interest are expensed as incurred.

Exploration and evaluation assets are intangible assets. Exploration and evaluation assets represent the costs incurred on the exploration and evaluation of potential resources, and include costs such as exploratory drilling, sample testing, activities in relation to evaluation of technical feasibility and commercial viability of extracting a resource, and general and administrative costs directly relating to the support of exploration and evaluation activities. Management reviews its exploration and evaluation assets at each reporting period for signs of impairment and annually to consider if there is impairment in value taking into consideration current year exploration results and management’s assessment of the future probability of profitable operations from the assets. If an asset is abandoned or inactive for a prolonged period of time, or considered to have no future economic potential, the acquisition and deferred exploration and evaluation costs are written-off to profit or loss. Assets are allocated to cash generating units not larger than operating segments for impairment testing.

Exploration and evaluation assets are recognized at their cost of acquisition or at fair value if purchased as part of a business combination. They are subsequently stated at cost less accumulated impairment. Exploration and evaluation assets are not amortized. Where the Company’s exploration commitments for a property are performed under option agreements with a third party, the proceeds of option payments under such agreements are applied to the property to the extent costs are incurred. The excess, if any, is recorded to the statement of loss and comprehensive loss.

Once the work completed to date on an area of interest is sufficient such that the technical feasibility and commercial viability of extracting the resource has been determined, the property is considered to be under development. Exploration and evaluation assets are tested for impairment before the assets are transferred to development property, and capitalized expenditures are transferred to development assets or capital work in progress.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

c) Property and equipment

Property and equipment is carried at cost less accumulated amortization, depletion and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is provided over the estimated useful life in order to expense the cost of property and equipment, less their estimated residual value, using the straight-line method.

Oil and gas property, including related facilities, are depleted using the unit-of-production method over the proved and probable reserves of the area. Where the Company intends to develop existing undeveloped or probable reserves, estimated future costs to develop these additional reserves are included in costs subject to depletion, which are then depleted over total proved and probable reserves. When the Company does not intend to develop existing undeveloped, proved reserves, the costs subject to depletion do not include future development costs, and the cost base is depleted over developed, proved reserves.

The assets' residual values, useful lives and methods of amortization and depletion are reviewed at each financial year-end, and adjusted prospectively if appropriate.

d) Decommissioning liabilities

The Company recognizes provisions for contractual, constructive or legal obligations, including those associated with the reclamation of interests (property and equipment), when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for the decommissioning liability is recognized at its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding provision is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, and amount or timing of the underlying cash flows needed to settle the obligation.

e) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at management's best estimate of the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

f) Interest income

Interest income is recorded on an accrual basis using the effective interest method.

g) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and financial liabilities are subsequently measured as described below.

i) Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held-to-maturity investments; and
- available-for-sale financial assets

The category determines how the asset is subsequently measured and whether any resulting income or expense is recognized in profit or loss or in other comprehensive income (loss).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment.

Loans and receivables comprise cash, restricted cash and trade receivables.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

ii) Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains and losses recognized in profit or loss. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company's financial liabilities measured at amortized cost include accounts payables and accrued liabilities, long term debt, recompletion funds received, joint venture partner payable, related party advances payable and promissory note payable. The Company currently does not have any financial liabilities held for trading or designated at fair value through profit or loss.

h) Impairment of assets

i) Financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. 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 asset's original effective interest rate. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss, unless the impairment relates to an equity investment.

ii) Non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that the assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate largely independent cash inflows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is 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.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

ii) Non-financial assets - continued

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 in profit or loss.

An impairment loss recognized in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro-rata basis.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. 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 to an amount that 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 periods. A reversal of an impairment loss is recognized in profit or loss.

i) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in comprehensive loss.

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

Deferred income taxes are calculated based on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognized on the initial recognition of goodwill, on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of the transaction, and on temporary differences relating to investments in subsidiaries and jointly controlled entities where the reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred income tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply when the assets are recovered and the liabilities settled, based on tax rates that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

i) Income taxes - continued

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

j) Revenue recognition

Revenue from sales of oil, natural gas, natural gas liquids and all other products is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred or when delivery is accepted by the customer. Recognized revenue is measured at the fair value of consideration received or receivable.

k) Earnings (Loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potential dilutive common shares related to stock options and warrants issued by the Company.

l) Share capital

Common shares issued for non-monetary consideration are recorded at their fair value on the measurement date and classified as equity. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty’s performance is complete.

The Company has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placement units. The relative fair value method allocates value to each component on a pro-rata basis, based on the fair value of the components calculated independently of one another. The Company considers the market value of the common shares issued as fair value, and measures the fair value of the warrant component of the unit using the Black-Scholes option pricing model. The unit value is then allocated, pro-rata, between the two components, with the fair value attributed to the warrants being recorded to contributed surplus.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

m) Share-based payments

The Company grants stock options to directors, officers, employees and consultants to acquire common shares of the Company. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee. The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period on a graded basis. Consideration paid for the shares on the exercise of stock options is credited to share capital. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

n) Flow-through shares

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into; i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized under other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration or development expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the period is disclosed separately as restricted cash.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a liability until paid.

o) Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

p) Farm-outs of property and equipment

The Company may enter into an arrangement with another company (the "farmee") whereby the Company allows the farmee to earn in interest in an existing oil and gas asset in return for cash and/or the farmee's commitment to fund additional development on an oil and gas interest. In accounting for a farm-out arrangement for assets outside of the exploration and evaluation stage, the Company:

- Derecognizes the proportion of the property and equipment sold to the farmee;
- Recognizes the consideration received or receivable from the farmee, which represents cash payments received and/or the farmee's obligation to fund the capital expenditure in relation to the interest retained by the Company; and
- Recognizes a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is recognized only when the value of the consideration can de determined reliably. If not, then the Company accounts for the consideration as a reduction in the carrying amount of the underlying assets.

During the year ended December 31, 2017, the Company entered into a farm-out arrangement in respect of the Flaxcombe portion of its oil and gas interests (Note 6).

q) Accounting standards, amendments and interpretations adopted during the year ended December 31, 2017

The Company adopted certain new standards, amendments and interpretations in the year ended December 31, 2017, none of which had a significant impact on its financial statements.

r) Accounting standards, amendments and interpretations not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. The Company has only included the applicable standards below.

Management anticipates the following pronouncement will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on the new standard is expected to be relevant to the Company's financial statements is provided below:

In July 2014, the IASB issued the final publication of the IFRS 9 standard, which will supersede IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new hedge accounting guidance.

Under IFRS 9, financial assets will be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

IFRS 9 also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

r) Accounting standards, amendments and interpretations not yet effective - continued

The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2018. The adoption of IFRS 9 is not expected to have a material impact on the Company's financial statements.

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of individual transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. The Company will adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2018. The Company expects that the application of this new standard will have no overall impact on the Company's financial statements.

On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2018, together with its adoption of IFRS 15. The adoption of IFRS 16 is not expected to have a material impact on the Company's financial statements as the Company has no significant operating lease arrangements.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that are expected to have a material impact on the Company.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's financial statements in accordance with IFRS requires management to make certain judgments, estimates, and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from these estimates. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS - continued

a) Oil and gas reserves

Estimates

Using geological and engineering data, estimates of petroleum and natural gas reserves are determined. These reserves form the basis for the depletion of property and equipment, which are depleted on a unit-of-production basis, as well as the impairment assessment of these properties. The data used to determine reserves is based on drill results and production and reserve models, which are inherently imprecise. The Company engages a recognized reserves engineering firm to update its estimated petroleum and natural gas reserves based on new information such as additional drill results, long-term reservoir production, changes to expectations for the economic viability of reserves, and changes to property leases or intentions for property development. Changes to reserve estimates are applied prospectively, and could result in increases or decreases to future depletion expenses or the carrying value of these properties.

b) Impairment of property and equipment

Estimates

In situations where indicators of impairment are present for the Company's property, plant and equipment, estimates of recoverable amount must be determined. Recoverable amount is determined as the higher of the cash generating unit's estimated value in use of the cash generating unit's estimated fair value less costs to sell. Value in use is based on the present value of the future cash flows expected to flow from the cash generating unit to the entity and actual cash flows may vary. Fair value less costs to sell is based on recent sales of comparable assets which may or may not be indicative of the cash generating unit's fair value.

Judgments

Management uses judgment in determining whether or not indicators of impairment have been identified for its cash generating units. The result of management's assessment could result in an impairment test not being performed when indicators did in fact exist, which could impact the valuation of the cash generating unit's carrying value.

c) Decommissioning liabilities

Estimates

The Company's provision for decommissioning liabilities requires management to estimate the timing and amount of cash flows required to reclaim its property and equipment. These cash flows are based on management assumptions for oil and gas reserves and production, which determine the timing of reclamation expenditures, as well as expectations for the future costs and legal or constructive requirements for environmental reclamation. Changes to either the timing or amount of the cash flows required for decommissioning, or to the discount rate used to record the present value of these cash flows, are considered prospectively. Such changes could increase or decrease the decommissioning liabilities reported by the Company, and will ultimately result in changes to the total expense for environmental reclamation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS - continued

d) Depletion and amortization

Estimates

Proved and probable reserves estimates for each cash generating unit are used as the denominator in the Company's unit-of-production depletion and amortization calculations. These estimates are prepared in accordance with Canadian Securities Administrators' National Instrument 51- 101 ("National Instrument 51-101"), but are subject to fluctuations due to changes in the price of oil, natural gas and its associates, lease operating expense cost of inflation and operations risks, reservoir performance and geological uncertainties.

e) Title to property interests

Judgments

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

f) Income taxes

Judgments

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law.

Estimates

For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may be materially different than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized.

5. RECEIVABLES AND PREPAIDS

Amounts receivable

	December 31, 2017	December 31, 2016
GST receivable	**$ 552**	$ 885

All amounts are current and the net carrying value is considered a reasonable approximation of fair value. The Company anticipates full recovery of these amounts and therefore no allowances have been recorded.

Prepaids

	December 31, 2017	December 31, 2016
Total	**$ 15,000**	$ 1,634

6. PROPERTY AND EQUIPMENT

Cost	**Oil & gas interests and equipment**	**Oil and water transportation equipment**	**Field office and buildings**	**Total**
January 1, 2016	**$ 300,000**	**$ 53,164**	**$ 27,783**	**$ 380,947**
Acquisition	2,625,000	-	-	2,625,000
Additions	55,768	101,880	-	157,648
Additions - decommissioning provision	1,407,433	-	-	1,407,433
Impairment	(2,309,098)	-	-	(2,309,098)
December 31, 2016	**2,079,103**	**155,044**	**27,783**	**2,261,930**
Disposals	(316,967)	-	-	(316,967)
Additions	444,063	92,772	207,665	744,500
Additions - decommissioning provision	81,656	-	-	81,656
December 31, 2017	**$ 2,287,855**	**$ 247,816**	**$ 235,448**	**$ 2,771,119**

Accumulated depletion/ amortization				
January 1, 2016	$ 6,000	$ -	$ 27,783	**$ 33,783**
Additions	67,809	31,231	-	**99,040**
December 31, 2016	73,809	31,231	27,783	**132,823**
Additions	122,664	38,993	2,552	**164,209**
December 31, 2017	**$ 196,473**	**$ 70,224**	**$ 30,335**	**$ 297,032**

Carrying amounts				
At December 31, 2016	$ 2,005,294	$ 123,813	$ -	$ 2,129,107
At December 31, 2017	**$ 2,091,382**	**$ 177,592**	**$ 205,113**	**$ 2,474,087**

6. PROPERTY AND EQUIPMENT – continued

The Company had purchased certain oil and gas equipment during the year ended December 31, 2015 for use on the Riverside oil and gas field. In November 2015, the Company entered into a lease agreement with Allstar Energy Limited ("Allstar") whereby Allstar will pay the Company $10,000 per month to lease the equipment. The agreement does not contain a defined term and will continue month to month until either party decides to terminate the agreement. During the year ended December 31, 2016, the Company recognized $30,000 in other income, associated with Allstar's lease of the equipment, for the months of January to March 2016.

On July 14, 2015 the Company announced that it had entered into a binding letter agreement (the "Letter Agreement") with 49 North Resources Inc. ("49 North") and Allstar regarding the acquisition of a 100% working interest in the oil and gas properties of 49 North and Allstar (the "Properties"). On May 26, 2016 the transaction was completed. Pursuant to the Letter Agreement, the Company obtained a 100% working interest in all of the Properties and title to all associated property and equipment for an aggregate purchase price of $2,625,000. The purchase price was paid via the issuance of an aggregate of 15,000,000 common shares in the capital of the Company at a fair value of $0.075 per share (Note 11) and a promissory note in the aggregate principal amount of $1,500,000 (Note 17). The promissory note bears interest at the rate of 5% per annum, maturing on May 26, 2018 and is repayable from the cash flows of operations.

As stated above, the Company acquired certain property and equipment in respect of the Riverside oil and gas field (the "Riverside Project") and reclassified exploration and evaluation asset costs to the Riverside Project as well. As impairment indicators were present immediately preceding the reclassification of the exploration and evaluation asset costs, the Company wrote down the amount previously classified as exploration and evaluation assets in the amount of $921,983. Further, the Company wrote down the Riverside Project (considered a single cash-generating unit) as a whole in the amount of $2,309,098 as at December 31, 2016, to approximate its recoverable amount. The impairment provision was recorded based on consideration of the difficult economic nature of oil and gas operations in Saskatchewan, and could potentially be reversed based on future support for a higher carrying value.

On February 3, 2017, the Company entered into a Farm-out Arrangement (the "Arrangement") with EROS Resources Corp. ("EROS") whereby EROS would fund the drilling and completion of 3 new wells on the Flaxcombe section of the Company's Riverside Project. Pursuant to the Arrangement, EROS advanced $1,600,000 to the Company to fund the development, which was the estimated budget for costs agreed to by the parties. The majority of the funds were then advanced by the Company to Allstar, as operator of the Project. As at December 31, 2017, the 3 new wells were completed and all 3 have commenced operations.

As consideration for the funding of the wells, EROS is entitled to 90% of the revenues generated from the wells until such point that their initial investment has been recouped. The remaining 10% is retained by the Company. Once EROS' investment has been recouped, the working interest in the wells will be adjusted to 50% to each of EROS and the Company. In addition, EROS has a right of first refusal to complete an additional two drilling programs on the same terms, subject to the same maximum investment per program.

Total costs incurred on the 3 wells were $1,545,261, (of which the Company has expended $1,303,172) as at December 31, 2017, a total of $54,379 is owing to EROS with an additional $77,507 owing to EROS in respect of operations from the wells in the second half of fiscal 2017 ($131,886 owing in total).

6. PROPERTY AND EQUIPMENT – continued

In connection with the Arrangement, the Company recorded an increase to oil and gas interests of $154,526 (quantified as 10% of total costs incurred in connection with the wells) with an corresponding gain to the statements of loss and comprehensive loss.

On April 5, 2017, the Company completed the acquisition of 2 wells from Teine Heavy Oil Partnership ("Teine") for cash proceeds of $101,000.

On September 14, 2017, the Company completed the disposition of certain sections of land included as part of the Riverside Project to Original Oil Inc. for nominal proceeds. In connection with the disposition, the Company derecognized the remaining carrying value and the decommissioning liability of the well, and recognized a gain of $7,914 on the transaction.

On October 12, 2017, the Company entered into a Joint Operating Agreement (the "Agreement") with Saturn Oil & Gas Inc. ("Saturn") whereby the parties have agreed to jointly operate certain adjacent land sections. The Agreement resulted in a unitisation of the sections, with each of the parties contributing their portion of the sections at a value equal to the other's contribution. Costs of the jointly operated land sections will be funded by each party in proportion to their working interests, being 50% to each.

On November 7, 2017, the Company completed the sale of 1 well to Saturn for cash proceeds of $10,150. In connection with the disposition, the Company derecognized the remaining carrying value and the decommissioning liability of the well, and recognized a gain of $1,737 on the transaction.

Saturn also offset an existing amount owing to them by $40,000 to acquire a 100% working interest in 1 of the wells that the Company had acquired from Teine (discussed above). No gain or loss was recognized on the disposition, as the amount received reflected the Company's carrying value of the well.

7. EXPLORATION AND EVALUATION ASSETS

a) Saskatchewan Oil and Gas

On May 26, 2016 the Company increased its working interest in six heavy oil wells in the Riverside field to 100% and acquired a 100% working interest in the remaining Riverside field which includes the Flaxcombe wells. The Company now holds a 100% working interest in 38 wells in this field. In addition, the Company acquired a 100% working interest in an additional 9 wells. During the year ended December 31, 2016, the assets were reclassified to property and equipment (Note 6).

b) Black Diamond, Manitoba

The Company previously held a 75% interest in 90 coal leases. The coal leases are valid for 10 years, and will expire in 2023. The Company has not made the 2016 and 2017 lease payments and does not intend on renewing the permits when they expire.

7. EXPLORATION AND EVALUATION ASSETS – continued

The Company's expenditures on the exploration and evaluation assets are as follows:

Cost		**Riverside,SK**	**Black Diamond, MB**		**Total**
Balance, January 1, 2016	**$**	**921,724**	**$ 3,745,010**	**$**	**9,947,768**
Exploration costs		259	-		259
Balance, December 31, 2016 and December 31, 2017	**$**	**921,983**	**$ 3,745,010**	**$**	**9,947,768**
Accumulated impairment					
Balance, January 1, 2016	**$**	-	$ (3,745,010)	**$**	(9,025,785)
Impairment write-down		(921,983)	-		(921,983)
Balance, December 31, 2016 and December 31, 2017	**$**	**(921,983)**	**$ (3,745,010)**	**$**	**(9,947,768)**
Carrying amounts					
Balance, December 31, 2016	$	-	$ -	$	-
Balance, December 31, 2017	**$**	**-**	**$ -**	**$**	**-**

The net additions to the exploration and evaluation assets, during the year, by nature are detailed as follows:

	2017	**2016**
Net cost of sample sales	$ -	$ 259
	$ -	$ 259

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities include the following components:

	December 31, 2017	December 31, 2016
Trade payables and other	$ 283,814	$ 404,422
Accrued liabilities	6,000	6,000
Related party - trade payable (Note 17)	883,446	427,636
Total	**$ 1,173,260**	$ 838,058

All amounts are current and the net carrying value is considered a reasonable approximation of fair value.

9. DECOMMISSIONING LIABILITIES

	December 31 2017	December 31 2016
Balance, beginning of year	**$ 1,455,619**	$ 16,339
Additions	81,656	1,407,433
Disposals	(285,868)	-
Accretion expense	41,441	31,847
Decommissioning expenses incurred	(5,925)	-
Balance, end of year	**$ 1,286,923**	$ 1,455,619

The total of the decommissioning liabilities are estimated based on the Company's net ownership interest in all the wells and facilities, the estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that based on their net ownership interest, the total undiscounted cash flows required to settle the obligations will be $1,836,370. The obligations have been discounted using a risk free rate of 3% and an inflation rate of 2% per year. Most of these obligations are not expected to be paid until approximately 20 years in the future and will be funded from general Company resources at that time.

10. LONG TERM DEBT

	Scotiabank	Credit Union	Total
Balance, January 1, 2016 and December 31, 2016	$ -	$ -	$ -
Additions	186,998	104,956	291,954
Repayments	(8,232)	(11,600)	(19,832)
Accrued interest	4,302	2,176	6,478
Balance, December 31, 2017	$ 183,068	$ 95,532	**$ 278,600**
Less: current portion due	(10,379)	(34,800)	**(45,179)**
Portion due beyond one year	$ 172,689	$ 60,732	**$ 233,421**

Repayment due on long term debt in each of the next 5 years is as follows:

	Scotiabank	Credit Union	Total
2018	$ 10,379	$ 34,800	$ 45,179
2019	10,379	34,800	45,179
2020	10,379	34,191	44,570
2021	10,379	-	10,379
2022	10,379	-	10,379
	$ 51,895	$ 103,791	$ 155,686

10. LONG TERM DEBT - continued

2.79% closed Scotiabank mortgage, secured by the field office and buildings (Note 6), blended monthly payments of $865, maturing on March 10, 2022. The mortgage can be prepaid up to 15% of the original mortgage amount annually, and in addition, the monthly blended mortgage payment can be increased by up to 15%.

5.50% Dodsland and District Credit Union term loan, secured by the pressure truck (included in the Company's oil and water transportation equipment (Note 6)), blended monthly payments of $2,900, maturing on July 31, 2022. The term loan can be drawn on to a maximum of $150,000. As of December 31, 2017 the Company has drawn $104,956 on the term loan. The Company anticipates additional draws on the term loan in 2018.

11. SHARE CAPITAL AND RESERVES

a) Authorized shares

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares, issuable in series. No preferred shares have been issued since the Company's inception.

On May 26, 2016 the Company closed a property and equipment acquisition agreement (Note 6) and issued 15,000,000 common shares at a fair value of $0.075 per common share.

On May 17, 2017, the Company completed a private placement for the issuance of a total of 4,000,000 units at a price of $0.15 per unit for gross proceeds of $600,000. Each unit was comprised of one common share and one warrant, exercisable into an additional common share at a price of $0.25 until May 17, 2019. In accordance with the Company's accounting policy, the values of the share and warrant components of the units were bifurcated under the relative fair value method, attributing a value of $343,500 to the shares and $256,500 to the warrants. In assessing the value of the warrants, the Company used the Black-Scholes option pricing model with the following assumptions: expected life of 2 years, stock price volatility of 214%, no dividend yield, and a risk-free rate of 0.65%.

On July 21, 2017, the Company completed a private placement for the issuance of a total of 3,333,000 units at a price of $0.15 per unit for gross proceeds of $499,950. Each unit was comprised of one common share and one warrant, exercisable into an additional common share at a price of $0.25 until July 21, 2019. In accordance with the Company's accounting policy, the values of the share and warrant components of the units were bifurcated under the relative fair value method, attributing a value of $290,650 to the shares and $209,300 to the warrants. In assessing the value of the warrants, the Company used the Black-Scholes option pricing model with the following assumptions: expected life of 2 years, stock price volatility of 180%, no dividend yield, and a risk-free rate of 1.24%.

During the year ended December 31, 2017, 4,750,000 shares of the Company were issued in connection to warrants being exercised, for $712,500 gross proceeds.

11. SHARE CAPITAL AND RESERVES - continued

b) Share purchase warrants

A summary of the outstanding and exercisable warrants during the year is presented below:

	December 31, 2017		December 31, 2016	
	Warrants	**Price**	**Warrants**	**Price**
Beginning of year	6,000,000	$ 0.15	6,000,000	$ 0.15
Warrants issued	4,000,000	0.25	-	-
Warrants issued	3,333,000	0.25	-	-
Warrants exercised	(4,750,000)	0.15	-	-
End of year	**8,583,000**	**$ 0.24**	**6,000,000**	**$ 0.15**

As at December 31, 2017, the Company had warrants outstanding and exercisable as follows:

Issue date	Exercise price	Financing Warrants	Expiry date
December 23, 2015	$0.15	1,250,000	May 26, 2018
May 17, 2017	$0.25	4,000,000	May 17, 2019
July 21, 2017	$0.25	3,333,000	July 21, 2019
		8,583,000	

c) Contributed surplus

The balance of contributed surplus as at December 31, 2017 is $1,743,010 (December 31, 2016 - $1,422,035) and was comprised of the valuation of previously issued stock options and warrants issued in connection with private placement unit offerings.

12. SHARE-BASED COMPENSATION

a) Stock option plan

The Company has an incentive Stock Option Plan (the "Plan") administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. The period during which an option is granted, subject to any vesting limitations which may be imposed by the Board of Directors at the time such option is granted, provide that no option shall be exercisable for a period exceeding five (5) years from the date the option is granted.

12. SHARE-BASED COMPENSATION - continued

a) Stock option plan - continued

The number and weighted average exercise price of stock options are as follows:

	Weighted average exercise price	Number
Balance, December 31, 2015	$2.65	70,000
Expired	2.65	(70,000)
Granted	0.08	2,800,000
Balance, December 31, 2016	0.08	2,800,000
Granted	0.15	200,000
Granted	0.22	700,000
December 31, 2017	$0.11	3,700,000

As at December 31, 2017, the weighted average remaining life of stock options is 4.03 years (December 31, 2016 – 4.85 years).

As at December 31, 2017, the Company had stock options outstanding and exercisable as follows:

Issue date	Exercise price	Options	Expiry date
November 4, 2016	$0.08	2,800,000	November 4, 2021
February 8, 2017	$0.15	200,000	February 8, 2022
September 27, 2017	$0.22	700,000	September 27, 2022
		3,700,000	

On November 4, 2016, the Board of Directors of the Company approved the grant of 2,800,000 stock options pursuant to the Plan. 1,500,000 of the options were granted to directors and executive officers with the balance granted to consultants. The options are exercisable at $0.08 per share, vest immediately and, if not exercised, expire November 4, 2021.

The value of options issued on November 4, 2016, using the Black-Scholes option pricing model, was $224,000 which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of 0.60%, expected life of 5 years, stock price volatility of 268% and a dividend rate of nil.

On February 8, 2017, the Board of Directors of the Company approved the grant of 200,000 stock options pursuant to the Plan to a consultant. The options are exercisable at $0.15 per share, vest immediately and, if not exercised, expire February 8, 2022.

The value of options issued on February 8, 2017, using the Black-Scholes option pricing model, was $27,000 which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of 0.98%, expected life of 5 years, stock price volatility of 267% and a dividend rate of nil.

12. SHARE-BASED COMPENSATION - continued

b) Stock option plan - continued

On September 27, 2017, the Board of Directors of the Company approved the grant of 700,000 stock options pursuant to the Plan. 400,000 of the options were granted to directors and executive officers with the balance granted to consultants. The options are exercisable at $0.22 per share, vest immediately and, if not exercised, expire September 27, 2022.

The value of options issued on September 27, 2017, using the Black-Scholes option pricing model, was $139,300 which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of 2.02%, expected life of 5 years, stock price volatility of 258% and a dividend rate of nil.

13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows, using Canadian federal and provincial statutory tax rates of 26% (2015 – 25%):

		December 31 2017		December 31 2016
Loss before income taxes	**$**	**1,469,245**	$	4,454,933
Expected income tax (recovery)	**$**	**(400,000)**	$	(1,158,000)
Effect of change in tax rate		**(74,000)**		(32,000)
Non-deductible expenses		**44,000**		58,000
Share issuance costs		**(6,000)**		-
Change in unrecognized other deductible temporary differences		**436,000**		1,132,000
Total income tax expense (recovery)	**$**	**-**	$	-

The significant components of the Company's unrecognized deferred tax assets are as follows:

		31 December 2017		31 December 2016
Deferred tax assets				
Property and equipment	**$**	**195,000**	$	191,000
Share issuance costs		**8,000**		4,000
Non-capital losses		**1,439,000**		933,000
Decommissioning liabilities		**347,000**		378,000
Exploration and evaluation assets		**355,000**		342,000
Unrecognized deferred tax assets	**$**	**2,344,000**	$	1,908,000

13. INCOME TAXES - continued

As at December 31, 2017 the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income in future years. A summary of these tax losses is provided below.

Year of expiry	Amount
2027	$ 52,000
2028	26,000
2029	259,000
2030	240,000
2031 and beyond	4,754,000
Total	$ 5,331,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

14. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's general and administrative expenses include the following:

For the year ended December 31,	**2017**	2016
Insurance	**$ 8,260**	$ 9,419
Interest	**13,112**	27,213
Investor relations	**34,098**	29,121
Legal and accounting fees	**36,894**	51,957
Management fees	**178,000**	120,000
Miscellaneous	**1,997**	966
Office expenses	**32,282**	32,133
Total	**$ 304,643**	$ 270,809

15. LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended December 31, 2017 and 2016 is based on the following data:

	December 31, 2017	December 31, 2016
Weighted average number of common shares (basic and diluted)	**36,236,968**	22,652,593

All stock options and warrants were excluded from the diluted weighted average number of shares calculation, as their effect would have been anti-dilutive.

16. FINANCIAL RISK MANAGEMENT

Capital management

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing opportunities for resource property exploration and development. The Company defines capital as the Company's shareholders' equity (deficiency) of $(1,049,909) at December 31, 2017 (December 31, 2016 – shareholders' deficiency of $(1,509,033)), and the Company's December 31, 2017 working capital deficiency of $1,216,193 (December 31, 2016 - working capital deficiency of $830,079). The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain the capital structure, the Company may attempt to issue shares or dispose of certain assets. The Company anticipates it will require further equity issues in 2018 to meet its planned operations and administrative costs through the next fiscal year. The Company is not subject to any externally imposed capital requirements. The Company expects to enter into additional debt financing in 2018. The Company did not make any changes to the way it manages its capital in the year ended December 31, 2017.

Financial instruments – fair value

Financial instruments measured at fair value on the statement of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments – risk

The Company is exposed to various risks in relation to financial instruments. This note presents information about the Company's exposure to credit, liquidity and market risks arising from its use of financial instruments and the Company's objectives, policies and processes for measuring and managing such risks.

i. Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and receivables. Cash consists of bank balances held at a Canadian Schedule I bank and amounts held in trust. The Company's receivables are comprised of Input Tax Credits receivable from the Government of Canada and trade receivables. The carrying amount of receivables represents the maximum credit exposure. The Company considers all of its receivables fully collectable, and no amounts are considered past due (greater than 90 days).

16. FINANCIAL RISK MANAGEMENT – continued

ii. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. The carrying value of accounts payables and accrued liabilities approximates its fair value due to their relatively short period to maturity.

At December 31, 2017 and December 31, 2016, the Company’s current financial liabilities were $1,458,733, and $838,058 respectively. The Company ensures that it has enough cash on demand for operational expenses by preparing annual capital expenditure budgets, which are regularly monitored and updated as considered necessary.

iii. Market risks

Market risk is the risk that changes in market prices (such as foreign exchange rates), commodity prices, and interest rates will affect the Company’s operations, net loss or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. All of the Company’s transactions are in Canadian dollars, therefore the Company is not exposed to any market risks.

iv. Commodity price risks

The value of the Company’s resource properties is related to the price of various commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside of the Company’s control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.

17. RELATED PARTY TRANSACTIONS

a) Related party expenses

The Company’s related parties include directors and officers and companies which have directors and officers in common.

During the year ended December 31, 2017, fees in the amount of $178,000 (2016 – $120,000) were paid or accrued to directors and officers who provided services to the Company. Included in accounts payable and accrued liabilities at December 31, 2017 is $192,995 (2016 - $312,038) owing to related parties. Amounts due to related parties do not bear any interest, are unsecured, and have no specific terms of repayment.

As at December 31, 2017, an additional amount of $883,446 (December 31, 2016 - $427,636) is owed to a related party and included in accounts payable and accrued liabilities (Note 8).

As at December 31, 2017, a total of $721,180 is owing to a related party for advances received (December 31, 2016 - $807,230). The advances are repayable on demand, are unsecured and do not bear interest.

17. RELATED PARTY TRANSACTIONS - continued

b) Key management personnel compensation

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

For the year ended December 31,	**2017**	2016
Short-term benefits	**$ 178,000**	$ 120,000
Share-based compensation	**79,690**	112,000
	$ 257,690	$ 232,000

(i) Short-term benefits include consulting fees.

c) Promissory note payable

In conjunction with the transaction with Allstar and the Company (Note 6), there remains a balance of $66,279 on the promissory note payable to Allstar (December 31, 2016 – $545,212). The promissory note bears interest at a rate of 5% per annum and matures on May 26, 2018. Since the closing of the transaction, the Company has made $1,460,933 in repayments on the promissory note (December 31, 2016 - $982,000 in repayments).

d) Loans to a related party

In conjunction with the transaction with Allstar and the Company (Note 6), the Company agreed to loan up to $250,000 to Allstar for operational purposes, bearing interest at 5% and repayable on demand. During the year ended December 31, 2016, the Company loaned a total of $234,550, and received a repayment from Allstar in the amount of $56,000. The remainder of the loans were offset against balances owing to Allstar as operator of the Company's oil and gas interests.

18. SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended December 31, 2016, the Company had the following non-cash financing and investing activities:

a) $1,407,433 in additions to property and equipment was related to an increase in the Company's decommissioning liabilities;
b) $1,125,000 in additions to property and equipment related to issuance of 15,000,000 common shares of the Company; and
c) $1,500,000 in additions to property and equipment related to the issuance of a promissory note payable to Allstar.

18. SUPPLEMENTAL CASH FLOW INFORMATION - continued

During the year ended December 31, 2017, the Company had the following non-cash financing and investing activities:

a) $18,222 in share issuance costs are still outstanding and included in accounts payable and accrued liabilities;
b) A total of $311,125 was reclassified from contributed surplus to share capital pursuant to the exercise of warrants;
c) $206,427 in property and equipment additions are still outstanding and included in accounts payable and accrued liabilities and joint venture partner payable;
d) $52,950 was reclassified from accounts payable and accrued liabilities to related party advances payable;
e) $81,656 in additions to property and equipment is related to an increase in the Company's decommissioning liabilities;
f) $285,868 in decommissioning liabilities were derecognized in connection with the disposition of certain of the Company's oil and gas interests; and
g) $6,920 in long term debt payments were made by a related party and included in accounts payable and accrued liabilities.