# Georox Resources Inc.

# Financial Statements

# December 31, 2017 and 2016

(in Canadian dollars)

# Independent Auditors' Report

To the shareholders of Georox Resources Inc.

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

*Management's Responsibility for 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 of 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 auditor's 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 controls 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, the financial statements present fairly, in all material respects, the financial position of Georox Resources Inc. 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 indicates the existence of a material uncertainty which may cast significant doubt about the ability of Georox Resources Inc. to continue as a going concern.

MNP LLP

Calgary, Alberta
April 11, 2018

Chartered Professional Accountants

MNP

## GEOROX RESOURCES INC.
**Statements of Financial Position**
**As at December 31,**

| | *Note* | | ***2017*** | | *2016* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | **$** | **125,618** | $ | 4,393 |
| Trade and other receivables | 14 | | **197,813** | | 278,185 |
| Investments | 7 | | **3,414** | | 27,399 |
| Inventory | | | **29,884** | | 34,331 |
| **Total current assets** | | | **356,729** | | 344,308 |
| **Non-current assets** | | | | | |
| Property and equipment | 5 | | **6,699,220** | | 6,918,124 |
| Exploration and evaluation assets | 6 | | **-** | | 365,461 |
| **Total assets** | | **$** | **7,055,949** | $ | 7,627,893 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Credit facilities | 15 | **$** | **5,269,776** | $ | 4,671,063 |
| Trade and other payables | 8 | | **2,276,006** | | 1,741,306 |
| Derivative liability | 15 | | **15,391** | | 29,781 |
| **Total current liabilities** | | | **7,561,173** | | 6,442,150 |
| **Non-current liabilities** | | | | | |
| Provision for decommissioning | 9 | | **1,327,194** | | 1,319,704 |
| **Total liabilities** | | **$** | **8,888,367** | $ | 7,761,854 |
| **Going concern** | 2 | | | | |
| **Commitments and contingencies** | 18 | | | | |
| **Subsequent events** | 19 | | | | |
| **Shareholders' deficiency** | | | | | |
| Common shares | 10(b) | **$** | **10,243,391** | $ | 10,106,434 |
| Share purchase warrants | 10(d) | | **311,126** | | 214,963 |
| Contributed surplus | | | **3,120,034** | | 3,083,690 |
| Accumulated other comprehensive loss | | | **(14,013)** | | (11,013) |
| Deficit | | | **(15,492,956)** | | (13,528,035) |
| **Total shareholders' deficiency** | | | **(1,832,418)** | | (133,961) |
| **Total shareholders' deficiency and liabilities** | | **$** | **7,055,949** | $ | 7,627,893 |

Approved and authorised by the Board of Directors

*Signed "Burkhard Franz"*, Director

*Signed "Lorraine McVean"*, Director

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

## GEOROX RESOURCES INC.
**Statements of Loss and Comprehensive Loss**
**For the years ended December 31,**

| | *Note* | ***2017*** | *2016* |
|---|---|---|---|
| **Revenue** | | | |
| Petroleum and natural gas | | **1,780,057** | 1,885,044 |
| Royalties | | **(145,298)** | (126,471) |
| | | **1,634,759** | 1,758,573 |
| **Expenses** | | | |
| Operating | | **1,058,359** | 1,195,571 |
| Depreciation, depletion and impairment | 5,6 | **1,021,813** | 1,044,221 |
| Stock-based compensation | 10(c) | **36,344** | 43,474 |
| General and administrative | | **654,690** | 474,980 |
| | | **2,771,206** | 2,758,246 |
| **Operating loss** | | **(1,136,447)** | (999,673) |
| Finance expense | 11 | **(824,576)** | (770,434) |
| Gain on extinguishment of credit facility | 15 | **-** | 14,137 |
| Loss on sale of investment | 7 | **(3,898)** | - |
| Gain on disposition of property and equipment | 5 | **-** | 16,808 |
| **Net loss for the year** | | **(1,964,921)** | (1,739,162) |
| **Other comprehensive income (loss)** | | | |
| Net change in fair value of available for sale financial assets | 7 | **(3,000)** | 14,025 |
| **Other comprehensive income (loss) for the year** | | **(3,000)** | 14,025 |
| **Total comprehensive loss for the year** | | **(1,967,921)** | (1,725,137) |
| **Loss per share** | | | |
| Basic and diluted | 16 | **(0.08)** | (0.10) |

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

## GEOROX RESOURCES INC.
**Statements of Changes in Shareholders' Equity (deficiency)**

| | *Common Shares* | | | | | | |
|---|---|---|---|---|---|---|---|
| | ***Number*** | ***Amount $*** | ***Warrants $*** | ***Contributed surplus $*** | ***Accumulated other comprehensive loss $*** | ***Deficit $*** | ***Total Shareholders' Equity (Deficiency) $*** |
| **Balance, December 31, 2015** | 15,275,562 | 9,864,297 | 277,103 | 2,763,113 | (25,038) | (11,788,873) | 1,090,602 |
| Issue of share capital (Note 10 (b)) | 7,698,333 | 461,900 | - | - | - | - | 461,900 |
| Share issue costs (Note 10 (b)) | - | (4,800) | - | - | - | - | (4,800) |
| Warrants stock-based payments (Note 10 (d)) | - | (214,963) | 214,963 | - | - | - | - |
| Expired warrants (Note 10 (d)) | - | - | (277,103) | 277,103 | - | - | - |
| Stock-based compensation (Note 10 (c)) | - | - | - | 43,474 | - | - | 43,474 |
| Net change in available for sale investments (Note 7) | - | - | - | - | 14,025 | - | 14,025 |
| Net loss for the year | - | - | - | - | - | (1,739,162) | (1,739,162) |
| **Balance, December 31, 2016** | 22,973,895 | 10,106,434 | 214,963 | 3,083,690 | (11,013) | (13,528,035) | (133,961) |
| Issue of share capital (Note 10 (b)) | 3,044,570 | 213,120 | - | - | - | - | 213,120 |
| Shares issued for compensation (Note 10 (b)) | 353,846 | 20,000 | - | - | - | - | 20,000 |
| Warrants share-based payments (Note 10 (d)) | - | (96,163) | 96,163 | - | - | - | - |
| Stock-based compensation (Note 10 (c)) | - | - | - | 36,344 | - | - | 36,344 |
| Net change in available for sale investments (Note 7) | - | - | - | - | (3,000) | - | (3,000) |
| Net loss for the year | - | - | - | - | - | (1,964,921) | (1,964,921) |
| **Balance, December 31, 2017** | 26,372,311 | 10,243,391 | 311,126 | 3,120,034 | (14,013) | (15,492,956) | (1,832,418) |

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

## GEOROX RESOURCES INC.
**Statement of Cash Flows**
**For the years ended December 31,**

| | *Note* | ***2017*** | *2016* |
|---|---|---|---|
| **Cash provided by (used in) the following:** | | | |
| **Operating activities** | | | |
| Net loss for the year | | **$ (1,964,921)** | $ (1,739,162) |
| Adjustments for non-cash items: | | | |
| Stock-based compensation | 10(c) | **36,344** | 43,474 |
| Depreciation, depletion and impairment | 5,6 | **1,021,813** | 1,044,221 |
| Finance expense – provision for decommissioning | 11 | **20,217** | 14,330 |
| Finance expense – accretion of credit facilities | 11 | **131,066** | 136,636 |
| Gain on disposal of property and equipment | 5 | **-** | (16,808) |
| Loss on sale of investments | 7 | **3,898** | - |
| Gain on derivative revaluation | 11 | **(14,390)** | (7,653) |
| Gain on extinguishment of credit facility | 15 | **-** | (14,137) |
| Shares issued for compensation | 10(b) | **20,000** | - |
| Non-cash additions to credit facilities | 15 | **80,467** | - |
| | | **$ (665,506)** | $ (539,099) |
| Changes in non-cash working capital balances: | | | |
| Change in trade and other receivables | | **80,372** | (58,283) |
| Change in inventory | | **4,447** | (23,883) |
| Change in trade and other payables | | **323,200** | 199,334 |
| **Net cash flows used in operating activities** | | **$ (257,487)** | $ (421,931) |
| **Investing activities** | | | |
| Purchase of property and equipment | 5 | **(450,175)** | (33,882) |
| Purchase of exploration and evaluation assets | 6 | **-** | (75,034) |
| Proceeds on sale of investment | 7 | **17,087** | - |
| Change in non-cash working capital | | **211,500** | - |
| **Net cash flows used in investing activities** | | **$ (221,588)** | $ (108,916) |
| **Financing activities** | | | |
| Issue of common shares, net of issue costs | 10(b) | **213,120** | 457,100 |
| Advances of Credit facilities | 15 | **417,180** | 1,275,431 |
| Repayment of Credit facilities | 15 | **(30,000)** | (25,000) |
| Repayment of bank indebtedness | 15 | **-** | (1,172,291) |
| **Net cash flows provided by financing activities** | | **$ 600,300** | $ 535,240 |
| **Net increase in cash and cash equivalents** | | **121,225** | 4,393 |
| **Cash and cash equivalents, beginning of year** | | **4,393** | - |
| **Cash and cash equivalents, end of year** | | **$ 125,618** | $ 4,393 |
| Cash interest paid | | **467,814** | 465,364 |
| Cash taxes paid | | **-** | - |

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

## 1. Nature of operations

Georox Resources Inc. (the “Corporation” or “Georox”) was incorporated under the Canada Business Corporations Act on April 14, 2003. The Corporation is listed on the TSX-Venture Exchange and its primary business is the acquisition of, exploration for, and the development of petroleum and natural gas properties in Canada.

The address of the Corporation’s registered office is Suite 1150, 707 – 7$^{th}$ Avenue SW, Calgary, Alberta, Canada, T2P 3H6.

These financial statements were approved for issuance by the Board of Directors on April 11, 2017.

## 2. Going concern

These financial statements have been prepared on a going concern basis, which implies the Corporation will continue to realize its assets and discharge its liabilities in the normal course of business. The Corporation has historically met its day to day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share issuances and debt.

As of December 31, 2017, the Corporation has a working capital deficiency of $7,204,444 (December 31, 2016 – $6,097,842), and an accumulated deficit of $15,492,956 (December 31, 2016 – $13,528,035). There is a material risk that the Corporation will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Credit facilities (note 15) and as at December 31, 2017, the Corporation was in breach of all but one of its covenants (note 15). Management continually monitors the Corporation’s financing requirements and, subsequent to year end, has entered into an agreement to acquire a working interest in producing properties (note 19) to fund its ongoing operations and assist in the repayment of debt. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following December 31, 2017.

In September 2017, the Corporation initiated a waterflood project at the Red Earth CGU with the goal of significantly improving the production and economics of the CGU.

The timing and extent of forecast capital and operating expenditures is based on the Corporation’s 2018 budget and on management’s estimate of expenditures expected to be incurred beyond 2018.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at December 31, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern.

On September 8, 2017, the Corporation entered into a Forbearance Agreement and a Quitclaim with the Lender (note 15).

The Quitclaim provides for the transfer of title in the petroleum and natural gas assets and interests owned by the Corporation as satisfaction for all indebtedness and obligations to the Lender. In conjunction with the Quitclaim, the Corporation has also entered into a Forbearance Agreement that states that the Lender will refrain from enforcing the Quitclaim or any of the following rights until July 31, 2018:

- Terminate the Amended Credit Facilities;
- Cease to make available or extend any such Amended Credit Facilities;
- Accelerate payment of the Amended Credit Facilities; and,
- Appoint a receiver to manage the Corporation’s assets.

The financial statements have been prepared on a basis which asserts that the Corporation will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Corporation is unable to meet its obligations as they fall due the preparation of these financial statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Corporation’s assets, liabilities, revenues, expenses, and balance sheet classifications may be necessary and such adjustments could be material.

## 3. Basis of presentation

a) Statement of compliance

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

b) Basis of measurement

The financial statements have been prepared on an historical cost basis, except as otherwise specified, as set out in the accounting policies below.

c) Presentation and functional currency

These financial statements are presented in Canadian dollars (unless stated otherwise), which is also the Corporation's functional currency.

d) Critical judgments, estimates and assumptions

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical judgements and estimates:

***Judgments:***

*Exploration and evaluation assets*

The Corporation is required to apply judgment when designating the nature of oil and gas activities as exploration, evaluation, development or production, and when determining whether the initial costs of these activities are capitalized.

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. Judgement is required to determine that the Corporation has obtained the right to explore, but has not yet determined proven reserves, therefore amounts remain in exploration and evaluation assets. The Corporation is required to make judgments about future events and circumstances and applies estimates to assess the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop the project. Level of drilling success, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures, are important judgments when making this determination.

*Determination of Cash Generating Units*

A cash generating unit ("CGU") is 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 allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations. Management has determined that the Corporation has three CGUs, namely Silverdale, Pouce Coupe, and Red Earth.

## 3. Basis of presentation *(continued)*

d) Critical judgments, estimates and assumptions *(continued)*

*Deferred Taxes*

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Corporation's estimate, the ability of the Corporation to realize the deferred tax assets could be impacted.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Corporation records a provision for the amount that is expected to be settled, which required the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Corporation's judgment of the likelihood of a future outflow and estimates of the expected settlement amount, and the tax laws in the jurisdictions in which the Corporation operates.

***Estimates:***

*Valuation of accounts receivable*

The provision for doubtful accounts is reviewed by management on a monthly basis. Trade and other receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfil its payment obligations can change suddenly and without notice.

*Decommissioning provisions*

The Corporation recognizes liabilities for the future decommissioning and restoration of exploration and evaluation and development and production assets. Decommissioning provisions are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate.

The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. Management applies judgment in assessing the existence and extent as well as the expected method of reclamation of the Corporation's decommissioning and restoration obligations at the end of each reporting period.

*Depletion and valuation of production and development assets*

Reserves estimates, although not reported as part of the Corporation's financial statements, can have a significant effect on net income, assets and liabilities as a result of their impact on depletion, deferred taxes, asset impairments and business combinations. The estimation of reserves and resources is an inherently complex process and involves the exercise of professional judgment. All reserves and resources have been evaluated at December 31, 2017 by independent qualified reserves evaluators in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The reserves and resource estimates are based on the definitions and guidelines contained in the Canadian Oil and Gas Evaluation Handbook.

Oil and gas reserves and resources estimates are based on a range of geological, technical and economical factors, including projected future rates of production, projected future commodity prices, engineering data, and the timing and amount of future expenditures, all of which are subject to uncertainty. Estimates reflect market and regulatory conditions existing at December 31, 2017, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

## 3. Basis of presentation *(continued)*

d) Critical judgments, estimates and assumptions *(continued)*

*Stock options and warrants*

The Corporation provides share-based awards to certain employees in the form of stock options. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options granted. The fair value of each option granted is estimated based on the date of grant and a provision for the costs is provided for with a corresponding credit to reserves in shareholders' equity over the vesting period of the option agreement. Stock-based payment expense associated with options issued to employees, consultants, officers and directors of the Corporation are expensed. The consideration received by the Corporation on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in reserves in shareholders' equity. Forfeitures are estimated for each tranche based on historical information and management estimates, and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based payment expense, the Corporation estimates the fair value of share options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeitures and expected dividend yields. Volatility is estimated based on historical volatility trends of the Corporation's own stock.

*Fair value measurements*

The estimated fair value of derivative instruments resulting in derivative assets and liabilities, by their very nature, are subject to measurement uncertainty. Estimates included in the determination of the fair value of derivative instruments include market share prices, interest rates, discount rates and volatility in those prices.

*Impairment indicators and discount rate*

The Corporation assesses its petroleum and natural gas ("P&NG") interests for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Corporation's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures.

The recoverable amounts of CGUs and individual assets have been determined as the greater of either an asset's or CGU's value in use or fair value less costs of disposal. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, quantity of reserves and discount rates as well as future development and operating costs. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the oil and natural gas reserves and the recoverable economical reserves and may require a material adjustment to the carrying value of oil and natural gas assets. The Corporation monitors internal and external indicators of impairment relating to its property and equipment, and exploration and evaluation assets.

*Business combinations*

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property and equipment and exploration and evaluation assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (gain on acquisition). Future net earnings (loss) can be affected as a result of changes in future depletion or asset impairment.

*Legal contingencies*

The Corporation records provisions related to legal matters if it is probable that the Corporation will not be successful in defending the claim and if an amount can be reasonably estimated. Determining the probability of a claim being defended is subject to considerable estimation and judgment. Additionally, the potential claim is generally a wide range of figures and a single estimate must be made when recording a provision. Contingencies will only be resolved or unfounded when one or more future events occur. The assessment of contingencies involves significant judgment and estimates of the potential outcome of future events.

## 4. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with banks and short-term investments with original maturities of less than ninety days.

(b) Jointly controlled operations and jointly controlled assets

Many of the Corporation's petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Corporation's share of these jointly controlled assets, the relevant revenue and related costs.

(c) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instruments. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities" as defined by the accounting standards.

Financial assets and financial liabilities at "fair value through profit or loss" are measured at fair value with changes in those fair values recognized in the statements of loss and comprehensive loss. All transaction costs related to the issuance of the instruments are expensed as incurred. Financial assets designated as "available-for-sale financial assets" are measured at fair value, with changes in those fair values recognized in other comprehensive loss.

Financial assets at "held-to-maturity investments", "loans and receivables" and financial liabilities at "other financial liabilities" are measured at amortized cost using the effective interest method. All transaction costs related to the issuance of these instruments are capitalized to the related instrument and amortized using the effective interest method.

Cash and cash equivalents are classified as "fair value through profit or loss", trade and other receivables are classified as "loans and receivables" and investments are classified as "available for sale". Trade and other payables and Credit Facilities are classified as "financial liabilities measured at amortized cost".

*Derivative liability*

On issuance, the Credit facilities (note 15) was split between the financial liability and the Common Share purchase warrants (the "Warrants"). The Credit facilities represented a liability in its entirety, as the Warrants did not meet the fixed-for-fixed requirement for equity classification as they carry a cashless exercise option for the life of the Warrants. The Warrants are required to be fair-valued at each reporting period. As a result, the Warrants are classified as a derivative liability at fair value through comprehensive loss and are recorded on the statement of financial position at fair value. The financial liability portion of the Credit facilities was initially recorded at fair value and accreted to the face value over the term of the Credit facilities.

(d) Exploration and evaluation expenditures and development and production assets

(i) Exploration and evaluation assets

Exploration and evaluation assets consist of capitalized costs related to geological and geophysical costs, undeveloped lands and unproved properties, and the Corporation's exploration projects which are pending the determination of proved reserves.

Exploration and evaluation costs, including the costs of acquiring licenses, technical services and exploratory drilling are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Exploration and evaluation costs are accumulated in cost centres pending determination of technical feasibility and commercial viability. Seismic and other costs incurred prior to acquisition of an exploration license are charged to the statements of loss and comprehensive loss as exploration and evaluation expenses as incurred.

## 4. Significant accounting policies *(continued)*

(d) Exploration and evaluation expenditures and development and production assets *(continued)*

Exploration and evaluation assets are not depleted until technical feasibility and commercial viability is determined. Technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist. Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation to development and production. When an area is determined not to be technically feasible, commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to the statements of loss and comprehensive loss as exploration and evaluation expenses.

(ii) Development and production assets

All costs directly associated with the development of natural gas and liquids 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 and completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Petroleum and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes to estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value.

Administrative assets, consisting of office furniture and equipment are depreciated on a declining balance basis over their estimated useful lives at rates ranging from 20% to 30% per annum.

For divestitures of properties, a gain or loss is recognized in the statements of loss and comprehensive loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured in which case the cost of the acquired asset is measured at the carrying value of asset given up. Where the exchange is measured at fair value, a gain or loss is recognized in the statements of loss and comprehensive loss.

(iii) Capitalization of costs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Borrowing costs are capitalized during the construction phase of qualifying assets.

(e) Impairment

(i) Impairment of non-financial assets

The carrying value of long-term assets is reviewed at each reporting period for indicators that the carrying value of an asset or cash-generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in the statements of loss and comprehensive loss. 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 groups of assets. For oil and gas properties the cash-generating unit is generally the field unless several fields are grouped because cash flows are inter-dependent.

## 4. Significant accounting policies *(continued)*

(i) Impairment of non-financial assets *(continued)*

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount and upon reclassification of these costs to development and production assets.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs of disposal ("FVLCD")" and its value in use ("VIU"). FVLCD is based on available market information, where applicable.

In the absence of such information, FVLCD is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. VIU is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash-generating unit.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications of a subsequent increase in the recoverable amount. If it is determined that a reversal of an impairment exists, the carrying value of the asset or cash-generating unit is increased to its revised recoverable amount with an impairment reversal recognized in the statements of loss and comprehensive loss. The amount of the reversal cannot exceed the original carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset in prior periods.

(ii) Impairment of financial assets

Trade and other receivables are assessed for impairment individually, if significant, and collectively if the assets share similar credit risk characteristics. If an impairment is required, the carrying amount of trade and other receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Net adjustments to the allowance account are recorded in the statement loss and comprehensive loss.

(f) Non-current assets held for sale

Non-current assets classified as held for sale and associated liabilities are measured at the lower of carrying amount and fair value less costs to sell, and are presented as current on the statements of financial position. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset of disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(g) Stock-based compensation

The Corporation has a stock option plan under which it grants stock options to directors, employees, consultants and service providers.

The Corporation records compensation expense on all options granted to employees, or to those providing similar services, at the fair value of the equity instruments, with a corresponding increase to contributed surplus. The Corporation uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. For awards with vesting conditions, a forfeiture rate is recognized at the grant date and is adjusted to reflect the number of awards expected to vest. As the options are exercised, the consideration paid, together with the amount previously recognized in contributed surplus are recorded as an increase in share capital.

(h) Decommissioning provisions

Decommissioning liabilities include present legal or constructive obligations as a result of past events where the Corporation will be required to retire tangible long-lived assets such as producing well sites and facilities. The obligation generally arises when the asset is installed, or the ground/environment is disturbed at the field location. When the liability is initially recognized, the amount represents management's estimate of the present value of the estimated future expenditures to abandon and reclaim the Corporation's net ownership in wells and facilities as well as an estimate of the future timing of the costs to be incurred. When a liability is recorded, the carrying amount of the related asset is increased by the same amount.

## 4. Significant accounting policies *(continued)*

(h) Decommissioning provisions *(continued)*

These costs are subsequently depleted as part of the costs of the item of property, plant and equipment. Any changes in the estimated timing of the decommissioning, or decommissioning costs estimates, or changes in the discount rate used to calculate the present value of future expenditures are accounted for prospectively by recording an adjustment to the provision for decommissioning liabilities and a corresponding adjustment to property, plant and equipment.

Increases in decommissioning liabilities resulting from the passage of time are recorded as a finance cost in the statements of loss and comprehensive loss. Actual expenditures incurred are charged against the accumulated decommissioning liability as incurred. The provision is re-measured at each reporting period in order to reflect changes in the inflation, risk-free rate, estimated timing of decommissioning or decommissioning cost estimates in effect at that time.

(i) Share capital and warrants

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

The fair value of the warrant component of a unit offering is calculated using the Black-Scholes option pricing model. The residual value of the difference between the unit offering price and the fair value of the warrant component is allocated to the value of the share capital component.

(j) Cash-settled transactions

A Deferred Share Unit ("DSU") Plan has been established for directors. The cost of the DSU's is measured initially at fair value based on the closing price of the Corporation's common shares preceding the day the DSU's are granted. The cost of the DSU's is recognized as a liability within trade and other payables in the statements of financial position and as a general and administrative expense in the statements of loss and comprehensive loss. The liability is remeasured to fair value based on the market price of the Corporation's common shares at each reporting date up to and including the settlement date, with changes in fair value recognized in general and administrative expenses in the statements of loss and comprehensive loss. The DSU's will be settled within a one year period, in cash, upon a written notice provided by a director who ceases to serve on the Board of Directors.

(k) Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, the revenue can be reliably measured, and it is probable that the economic benefits will flow to the Corporation. This takes place once delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Risk and rewards of ownership have been transferred to the customer at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, sales taxes, excise duties and similar levies based on the price specified in the sales contract.

(l) Per share amounts

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options, warrants and convertible debt, if dilutive. The number of additional shares is calculated using the treasury stock method by assuming that outstanding stock options, warrants and convertible debt were exercised and the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

## 4. Significant accounting policies *(continued)*

(m) Taxes

Tax expense comprises current and deferred tax. Current tax expense is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference 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 the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued by the IASB which are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements. The Corporation does not expect the amendments to have a material impact on the financial statements.

(i) IFRS 9 financial instruments

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Corporation has evaluated the impact of adopting IFRS 9 on the financial statements and will adopt the new standard using the modified retrospective method effective January 1, 2018. The new standard will result in a change of accounting policy for impairment of trade and other receivables using an expected credit loss model as compared to incurred loss model required by IAS 39. The Corporation will apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Corporation considered historical industry default rates as well as credit ratings of major customers. The effect of this change in accounting policy will not have a material impact on the Corporation's financial statements. Other financial instruments are not expected to have a material impact on the adoption of this standard.

## 4. Significant accounting policies *(continued)*

(n) New standards and interpretations not yet adopted *(continued)*

(ii) IFRS 15 revenue from contracts with customers

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and the Corporation will adopt the new standard using the modified retrospective method. The Corporation has evaluated the impact of adopting IFRS 15 on the financial statements and it will not have a material impact. The Corporation will be required to provide enhanced disclosures relating to the disaggregation of revenues from contracts with customers, the Corporation's performance obligations and any significant judgements.

(iii) IFRS 16 Leases

IFRS 16 Leases issued on January 13, 2016 by the IASB replaces IAS 17 Leases. The new standard introduces a single recognition and measurement model for leases, which would require the recognition of assets and liabilities for most leases with a term of more than twelve months. The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 "Revenue from Contracts with Customers" at or before the initial adoption date of January 1, 2018. The Corporation continues to assess this new standard, but does not expect it to have a significant impact.

## 5. Property and equipment

| *Cost* | *Petroleum and natural gas interests and equipment* | *Administrative assets* | *Total* |
|---|---|---|---|
| Balance at December 31, 2015 | 15,273,294 | 16,061 | 15,289,355 |
| Additions | 33,882 | - | 33,882 |
| Dispositions | (2,357,371) | - | (2,357,371) |
| Change in decommissioning liability | (77,493) | - | (77,493) |
| Balance at December 31, 2016 | 12,872,312 | 16,061 | 12,888,373 |
| Additions | 450,175 | - | 450,175 |
| Change in decommissioning liability | (11,963) | - | (11,963) |
| **Balance at December 31, 2017** | **13,310,524** | **16,061** | **13,326,585** |
| **Accumulated depletion, depreciation and impairment** | | | |
| Balance at December 31, 2015 | 7,390,593 | 16,061 | 7,406,654 |
| Dispositions | (2,366,173) | | (2,366,173) |
| Depletion, depreciation and impairment | 929,768 | - | 929,768 |
| Balance at December 31, 2016 | 5,954,188 | 16,061 | 5,970,249 |
| Depletion, depreciation and impairment | 657,116 | - | 657,116 |
| **Balance at December 31, 2017** | **6,611,304** | **16,061** | **6,627,365** |
| Net book value at December 31, 2016 | 6,918,124 | - | 6,918,124 |
| **Net book value at December 31, 2017** | **6,699,220** | **-** | **6,699,220** |

## 5. Property and equipment *(continued)*

Future capital expenditures of $3,480,800 (December 31, 2016 - $4,478,800), as estimated by independent engineers, relating to the development of reserves have been included in costs subject to depletion.

During the year ended December 31, 2017, engineering fees charged by an officer of the Corporation of $Nil (December 31, 2016 - $13,500) were included in additions to property and equipment.

During the year ended December 31, 2016, the Corporation assigned its working interest in the Couteau Lake CGU to the operator of the property as a part of the terms of a settlement agreement for outstanding debt relating to the property. As a result, an adjustment was made to the property to remove the carrying value and associated impairment and depletion costs resulting in a gain on disposal of $16,808.

For the year ended December 31, 2017, the Corporation recorded an impairment loss of $106,878 (December 31, 2016 - $Nil) on development and production assets in respect of the Silverdale CGU. The impairment in current year was primarily a function of reduced estimated reserve values due to the lower forecast benchmark commodity price.

The Corporation determined the recoverable amounts for its CGUs based on fair value less costs of disposal using independent reserve engineers. In determining the recoverable amount, the Corporation considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes, and discount rates specific to the CGU. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating costs structures and commodity prices. The fair value less costs of disposal estimates are categorized as Level 3 according to the IFRS 13 fair value hierarchy.

In computing the recoverable amount, future cash flows were adjusted for risks specific to the CGUs, reduced by a cost to sell of 2% (December 31, 2016 – 2%) and discounted using a discount rate of 15% (December 31, 2016 – 15%).

Short-term forecast benchmark commodity price assumptions reflect the volatility in crude oil and natural gas prices in recent periods. Long-term forecast benchmark commodity price assumptions tend to be stable as the short-term decreases in prices are not considered indicative of long-term price levels, but are nonetheless subject to change. The following table outlines the forecast benchmark commodity prices used in the impairment calculation of property and equipment at December 31, 2017:

| | ***2018*** | ***2019*** | ***2020*** | ***2021*** | ***2022*** | ***Increase thereafter*** |
|---|---|---|---|---|---|---|
| Light Oil per BBL ($Cdn) | 65.44 | 74.51 | 78.24 | 82.45 | 84.10 | 2.0% |
| Heavy Oil per BBL ($Cdn) | 51.05 | 59.61 | 64.94 | 68.43 | 69.80 | 2.0% |
| Natural Gas ($Cdn) | 2.85 | 3.11 | 3.65 | 3.80 | 3.95 | 2.0% |

Changes in any of the key judgments, such as a downward revision in reserves, a decrease in forecast benchmark commodity prices, changes in foreign exchange rates, an increase in royalties or an increase in operating costs would decrease the recoverable amounts of assets and any impairment charges would affect net loss. A three percent increase in the assumed discount rate would result in an additional impairment expense of $2,000 for Silverdale CGU and no impairment for the other CGUs for the year ended December 31, 2017.

## 6. Exploration and evaluation assets

| | | |
|---|---|---|
| Balance at December 31, 2015 | $ | 403,298 |
| Additions | | 75,034 |
| Impairment | | (114,453) |
| Change in provision for decommissioning | | 1,582 |
| Balance at December 31, 2016 | $ | 365,461 |
| Impairment | | (364,697) |
| Change in provision for decommissioning | | (764) |
| **Balance at December 31, 2017** | **$** | **-** |

## 6. Exploration and evaluation assets *(continued)*

Exploration and evaluation assets ("E&E") are not subject to depletion, as they are in the exploration and evaluation stage, but are reviewed on a quarterly basis for any indication of impairment. As at December 31, 2017, the Corporation recorded impairment charges of $364,697 for the Meekwap property, (December 31, 2016 - $52,436 for the Virginia Hills property and $62,017 for the Swan Hills property) as the Corporation does not intend to pursue further exploration or development of this area.

## 7. Investments

| | | ***2017*** | | *2016* |
|---|---|---|---|---|
| Investments | | | | |
| Investment in high interest yield account | **$** | **3,414** | $ | 3,399 |
| Common shares, Yorkton Ventures Inc. | | **-** | | 24,000 |
| | **$** | **3,414** | $ | 27,399 |

During the year ended December 31, 2017, 200,000 common shares were sold for proceeds of $17,087. A loss on sale of $3,898 was recorded (2016 - $Nil).

The common shares held are recorded at fair value using quoted closing market prices at the statements of financial position date. During the year ended December 31, 2017, the Corporation recorded an unrealized loss in the change in fair value of $3,000 (December 31, 2016 – gain of $14,025) which has been recorded in other comprehensive loss.

## 8. Trade and other payables

| | | ***2017*** | | *2016* |
|---|---|---|---|---|
| Trade payables | **$** | **1,599,643** | $ | 1,247,192 |
| Accruals and other accounts payable | | **661,166** | | 469,678 |
| GST/HST Payable | | **15,197** | | 24,436 |
| Total trade and other payable | **$** | **2,276,006** | $ | 1,741,306 |

Trade payables are non-interest bearing and are normally settled on 30 day terms.

## 9. Provision for decommissioning

The Corporation estimates the total inflation-adjusted undiscounted amount of cash flows required to settle its decommissioning liabilities, before salvage proceeds, at December 31, 2017 to be $1,559,175 (December 31, 2016 - $1,563,881) which will be incurred at various times over the next two to twenty years. The fair value of the decommissioning liability was calculated using risk free rates ranging from 1.66% to 2.22% and an inflation factor of 2.0% (December 31, 2016 – 0.51% to 2.21%, and 2% respectively). Settlement of the obligations will be funded from general corporate funds at the time of retirement. As at December 31, 2017, no funds have been set aside to settle these obligations (December 31, 2016 - $nil).

| | | |
|---|---|---|
| Balance at December 31, 2015 | $ | 1,381,285 |
| Changes in estimates and assumptions | | (75,911) |
| Unwinding of discount | | 14,330 |
| Balance at December 31, 2016 | **$** | 1,319,704 |
| Changes in estimates and assumptions | | (12,727) |
| Unwinding of discount | | 20,217 |
| **Balance at December 31, 2017** | **$** | **1,327,194** |

## 10. Share capital

As of May 2, 2016, the Corporation consolidated its shares on a one to three basis pursuant to a special resolution passed by shareholders on April 30, 2016. All references to common shares, per share amounts, warrants, options, and deferred share units for all periods presented have been retroactively restated to reflect this consolidation.

(a) Authorized
Unlimited number of common shares

(b) Issued

| | ***2017*** | | *2016* | |
|---|---|---|---|---|
| | *Number of Shares* | *Amount* | *Number of Shares* | *Amount* |
| Balance, beginning of year | **22,973,895** | **$ 10,106,434** | 15,275,562 | $ 9,864,297 |
| Shares issued, net of warrant value | **3,398,416** | **136,957** | 7,698,333 | 246,937 |
| Share issue costs | **-** | **-** | - | (4,800) |
| Balance, end of year | **26,372,311** | **$ 10,243,391** | 22,973,895 | $ 10,106,434 |

During the year ended December 31, 2017, the Corporation completed a non-brokered private placement of 3,044,570 units of the Corporation at a price of $0.07 per unit for aggregate gross proceeds of $213,120. Each unit consists of one Common Share of the Corporation and one half of a Common Share purchase warrant. Each warrant is exercisable for one Common Share at a price of $0.14 per Common Share for a period, to and including, May 22, 2019. The fair value of the 1,522,285 warrants, $96,163 was determined using the Black-Scholes option pricing model using the following assumptions: Risk-free rate 1.28%; Expected life of 1.8 years, expected volatility of 268%.

During the year ended December 31, 2017, the Corporation issued 200,000 Common Shares at a value of $10,000 and 153,846 Common Shares at a value of $10,000 for services rendered to the Corporation by a consultant. The shares were measured at the fair value of services received.

During the year ended December 31, 2016, the Corporation closed the private placement of 7,698,333 Units for aggregate proceeds of $461,900 at a price of $0.06 per Unit. Each Unit consisted of one common share and one Common Share purchase warrant. Each Warrant is exercisable at a price of $0.12 per Common Share for a period of one year. All securities in the Private Placement will be subject to a four month hold period from closing. Agents were paid $4,800 in finders' fees in connection with the Private Placement. The fair value of the 7,698,333 warrants, $214,963 was determined using the Black-Scholes option pricing model using the following assumptions: Risk-free rate 0.51%- 0.62%; weighted average expected life of 2 year, expected volatility of 159% - 166%.

(c) Stock Options

The Corporation has a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the plan will not exceed 10% of its issued and outstanding common shares. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Corporation. The maximum number of shares which may be reserved for issuance to any consultant in any 12-month period shall be 2% of the shares issued and outstanding at the time of the grant. The maximum number of shares which may be reserved for issuance to investor relations employees in any 12-month period shall be 2% of the shares issued and outstanding at the time of the grant. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the Board of Directors of the Corporation and shall be determined on the basis of the market price of the shares at the time of grant, subject to all applicable regulatory requirements. Stock options granted under the Corporation's stock option plan cannot be traded.

## 10. Share capital *(continued)*

(c) Stock Options *(continued)*

During the year ended December 31, 2017, 350,000 (December 31, 2016 – 1,000,000) options were granted to directors of the Corporation. For the options issued in 2017, 150,000 expire in 2 years, and 200,000 expire in 3 years. The 350,000 options granted in 2017 vest 1/3 immediately, 1/3 on June 30, 2018, and 1/3 on December 31, 2018. The 1,000,000 options granted in 2016 vest 1/4 immediately, 1/4 on April 7, 2017, 1/4 on October 7, 2017 and 1/4 on April 7, 2018. The fair value of the options granted was determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

| | **2017** | 2016 |
|---|---|---|
| Risk-free interest rate (%) | **1.54%** | 0.72% |
| Weighted average expected life (years) | **2.6** | 5 |
| Expected volatility (%) | **187%** | 154% |
| Expected dividend yield (%) | **-** | - |
| Weighted average fair value ($) | **0.06** | 0.09 |
| Forfeiture rate | **3%** | 3% |

A summary of the Corporation's option plan as of December 31, 2017 and December 31, 2016 and changes during the years are presented as follows:

| | ***2017*** | | *2016* | |
|---|---|---|---|---|
| | ***Number of options*** | ***Weighted average exercise price ($/share)*** | *Number of options* | *Weighted average exercise price ($/share)* |
| Balance, beginning of year | **1,200,000** | **0.14** | 358,333 | 0.36 |
| Granted | **350,000** | **0.07** | 1,000,000 | 0.10 |
| Expired | **(100,000)** | **0.10** | (158,333) | 0.45 |
| Forfeited | **(100,000)** | **0.10** | - | - |
| Balance, end of year | **1,350,000** | **0.09** | 1,200,000 | 0.14 |

During the year ended December 31, 2017, stock-based compensation of $36,344 (December 31, 2016 - $43,474) was recorded.

As at December 31, 2017, the following options are outstanding:

| | **Options outstanding** | | | **Options exercisable** | |
|---|---|---|---|---|---|
| ***Range of exercise price ($/share)*** | ***Outstanding*** | ***Weighted average remaining contractual life*** | ***Weighted average exercise price ($/share)*** | ***Number exercisable*** | ***Weighted average exercise price ($/share)*** |
| 0.07 - 0.10 | 1,350,000 | 3.11 years | 0.09 | 916,667 | 0.09 |

As at December 31, 2016, the following options are outstanding:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| *Range of exercise price ($/share)* | *Outstanding* | *Weighted average remaining contractual life* | *Weighted average exercise price ($/share)* | *Number exercisable* | *Weighted average exercise price ($/share)* |
| 0.10 | 1,200,000 | 4.38 years | 0.14 | 450,000 | 0.13 |

## 10. Share capital *(continued)*

(d) Warrants

During the year ended December 31, 2017, the Corporation issued 1,522,285 share purchase warrants in connection with the July 27, 2017 private placement (note 10(b)). The warrants are each exercisable for one Common Share at a price of $0.14 per Common Share until May 22, 2019.

During the year ended December 31, 2016, the Corporation issued 7,698,333, share purchase warrants in connection with the private placement (note 10(b)). The warrants are each exercisable for one common share at a price of $0.12 per common share until April 30, 2018.

A summary of changes during the years ended December 31, 2017 and 2016 is as follows:

| | **December 31, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | **Number** | **Amount** | Number | Amount |
| Balance, beginning of year | **7,698,333** | **$ 214,963** | 1,369,433 | $ 277,103 |
| Expired | **-** | **-** | (1,369,433) | (277,103) |
| Granted | **1,522,285** | **96,163** | 7,698,333 | 214,963 |
| Balance, end of year | **9,220,618** | **$ 311,126** | 7,698,333 | $ 214,963 |

## 11. Finance expense

| | ***2017*** | *2016* |
|---|---|---|
| Accretion of Credit facilities (note 15) | **$ (131,066)** | $ (136,636) |
| Derivative revaluation (note 15) | **14,390** | 7,653 |
| Interest expense | **(687,683)** | (627,121) |
| Unwinding of discount on provision for decommissioning (note 9) | **(20,217)** | (14,330) |
| Finance expense | **$ (824,576)** | $ (770,434) |

## 12. Key management remuneration

Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and participate in the Corporation's stock option program. The executive officers include the Chief Executive Officer, Chief Financial Officer, and Vice President of Finance and Corporate Development. Non-executive directors also participate in the Corporation's stock option program. Key management personnel compensation is comprised of the following:

| | ***2017*** | *2016* |
|---|---|---|
| Salaries and short term benefits | **$ 126,000** | $ 138,866 |
| Stock-based compensation | **30,321** | 43,474 |
| Total key management remuneration | **$ 156,321** | $ 182,340 |

For the year ended December 31, 2017, 370,280 DSU's were granted (December 31, 2016 – 356,439), with a fair value of $22,250 (December 31, 2016 - $20,250) which is included in general and administration expense. As at December 31, 2017, 933,241 DSU's (December 31, 2016 – 429,945), were outstanding and the fair value of the DSU's of $121,321 (December 31, 2016 - $56,000) is included in trade and other payables.

## 12. Key management remuneration *(continued)*

| | ***2017 Number of DSU's*** | *2016 Number of DSU's* |
|---|---|---|
| Opening balance | **562,961** | 206,522 |
| Granted | **370,280** | 356,439 |
| Ending Balance, Outstanding | **933,241** | 562,961 |

## 13. Taxes

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the Canadian statutory income tax rate of 26.50% (2016 – 26.50%).

| | ***2017*** | *2016* |
|---|---|---|
| Loss from continuing operations | **$ (1,964,921)** | $ (1,739,162) |
| Expected tax recovery | **(520,704)** | (460,878) |
| Non-deductible expenses | **10,017** | 11,579 |
| Change in unrecognized tax benefits | **510,687** | 449,299 |
| Deferred tax recovery | **$ -** | $ - |

The components of the unrecognized deductible temporary differences are as follows:

| | ***2017*** | *2016* |
|---|---|---|
| Property, equipment, exploration and evaluation assets and provision for decommissioning | **$ 5,110,652** | $ 4,068,613 |
| Non-capital losses | **5,838,839** | 5,158,729 |
| Net capital losses | **1,136,800** | 1,135,343 |
| Credit facilities and derivative liability | **235,066** | 118,367 |
| Share issue costs | **168,876** | 90,387 |
| Transaction costs | **63,119** | 63,119 |
| Unrecognized deductible temporary differences | **$ 12,553,352** | $ 10,634,558 |

## 13. Taxes*(continued)*

At December 31, 2017, the Corporation has approximately $5,838,839 (2016 - $5,158,729) losses available, which can be applied against taxable income in future years in Canada. The potential income tax benefits of these losses have not been recognized. The losses, if unutilized, will expire as follows:

| Year | Amount |
|---|---|
| 2026 | $ 301,281 |
| 2027 | 732,730 |
| 2028 | 451,823 |
| 2029 | 154,942 |
| 2030 | 332,940 |
| 2033 | 7,047 |
| 2035 | 1,676,637 |
| 2036 | 1,493,686 |
| 2037 | 687,753 |
| | $ 5,838,839 |

At December 31, 2017, the Corporation has approximately $1,136,800 of net capital losses available, which can be applied against capital gains in future years in Canada. The potential income tax benefits of these losses have not been recognized. These losses do not have an expiry date.

## 14. Fair values and risk management

(a) Fair values

The Corporation's financial instruments consist of cash and cash equivalents, trade and other receivables, investments, trade and other payables, Credit facilities and derivative liability.

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and Credit facilities approximate their carrying value due to the short-term nature of those instruments.

The investments are recorded at fair value using quoted closing market prices at the statements of financial position date.

The fair value of the derivative liability is calculated using the Black-Scholes pricing model which is based on significant assumptions such as volatility of the market price of the Corporation's shares, the risk free interest rate (based on government of Canada Bonds), and the share price of the Corporation's stock at the measurement date.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities are determined based on one of the following three hierarchies:

- Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities.
- Level 2 includes valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly and can be substantially observed or corroborated in the marketplace.
- Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents and investments are measured at fair value based on a Level 1 inputs.

The derivative liability is measured at fair value based on level 2 inputs. The Credit facilities had two components of value – a conventional financial liability and Common Share purchase warrants. Based on its terms disclosed in note 15, the Common Share purchase warrants meet the definition of a derivative and are classified as a financial liability through profit and loss.

## 14. Fair values and risk management *(continued)*

(b) Risk factors

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Corporation are:

(i) Credit risk

Credit risk is primarily related to cash and cash equivalents and accounts receivable from petroleum and natural gas property operators and joint venture partners and to the risk of financial loss if a partner or counterparty to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents are held by major financial institutions. The Corporation makes allowance for doubtful accounts based on management's assessment of collectability. The allowance for doubtful accounts at December 31, 2017 was $134,830 (December 31, 2016 - $134,830). As at December 31, 2017, 72% (2016 - 87%) of accounts receivable relates to amounts due from marketers of the Corporation's oil and natural gas activities. The Corporation believes that its counterparties currently have the financial capacity to settle obligations in the normal course of business. Management will monitor the credit rating with its marketers to ensure no collection issues arise. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production.

All of the Corporation's operations are currently conducted in Canada. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

As at December 31, 2017 and 2016, the Corporation's trade and other receivables were comprised of the following:

| | | ***2017*** | | *2016* |
|---|---|---|---|---|
| Petroleum and natural gas sales | **$** | **174,971** | $ | 247,239 |
| GST receivable and other | | **22,842** | | 30,946 |
| | **$** | **197,813** | $ | 278,185 |

As at December 31, 2017 and 2016, the Corporation's trade receivables relating to petroleum and natural gas sales and joint venture receivables are aged as follows:

| | | ***2017*** | | *2016* |
|---|---|---|---|---|
| Current (0 to 30 days) | **$** | **43,632** | $ | 219,787 |
| 31 to 60 days | | **2,602** | | 1,432 |
| 61 to 90 days | | **4,327** | | 3,399 |
| Past due but not impaired (over 90 days) | | **124,410** | | 22,621 |
| Total trade receivables | **$** | **174,971** | $ | 247,239 |

## 14. Fair values and risk management *(continued)*

(ii) Liquidity risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its financial liabilities when due. Management mitigates liquidity risk by maintaining banking and other borrowing facilities, continuously monitoring forecast and actual cash flows and actively seeking equity financing to assist with projected cash outflows. As of December 31, 2017, the Corporation has a working capital deficiency of $7,204,444 and an accumulated deficit of $15,492,956. The Corporation's ability to continue as a going concern is dependent on the successful completion of the waterflood program at the Red Earth CGU, successful closing of the acquisition (note 19), achieving profitable operations and the ability to refinance or repay current debt and access additional financing.

The following table outlines the contractual maturities of the Corporation's financial liabilities, including derivatives:

| | | Less than one year | | 1 - 3 years |
|---|---|---|---|---|
| Trade and other payables | $ | 2,276,006 | $ | - |
| Derivative liability | | 15,391 | | - |
| Credit facilities | | 5,050,125 | | - |
| | $ | 7,341,522 | $ | - |

(iii) Market risk

Market risk consists of interest rate, foreign currency and commodity price risks.

*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 related to the Corporation's Credit facilities is limited due to the fixed rate.

*Foreign currency risk*
Management believes the foreign exchange risk from currency fluctuations relating to financial instruments held in foreign currencies is negligible. At December 31, 2017 and 2016, the Corporation held no foreign currency instruments.

*Commodity price risk*
The nature of the Corporation's operations results in exposure to commodity price fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. The Corporation does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the years ended December 31, 2017 or 2016.

During the year ended December 31, 2017, if production remained constant and the Corporation realized commodity prices changed by 10%, the Corporation's net loss would vary by $178,006.

## 14. Fair values and risk management *(continued)*

(iv) Capital management

The Corporation's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, to sustain the development of the Corporation's current capital projects and for future development of the Corporation. The Corporation monitors its working capital and expected capital spending and raises additional equity by the issue of share capital to manage its development plans.

The Corporation has no externally imposed capital requirements apart from the banking covenants on the Corporation's credit facilities (note 15). The Corporation continues to assess additional petroleum and natural gas projects and plans to raise additional debt or equity amounts as needed to fund acquisitions and to maintain sufficient working capital to meet administrative expenditures.

The Corporation considers its capital structure to be working capital and shareholders deficiency. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2017. The Corporation's working capital deficiency at December 31, 2017 was $7,204,444 (December 31, 2016 – $6,097,842). The Corporation's shareholders' deficiency at December 31, 2017 was $1,832,418 (December 31, 2016 –$133,961).

## 15. Credit facilities

During the year ended December 31, 2015, the Corporation had an agreement with a financial institution for a revolving line of credit of $975,000 and a $200,258 non-revolving demand loan facility (the "Senior Lender Facilities").

On May 9, 2014, subsequently amended on June 9, 2015, June 12, 2015 and September 24, 2015, the Corporation entered into an agreement with a mezzanine financer for a credit facility subordinated to the Senior Lender Facilities, repayable on November 30, 2015 bearing interest at 12% (the "Mezzanine Financing").

On February 16, 2016, the Corporation restructured and consolidated its credit facilities. The Corporation's mezzanine financier (the "Lender"), consolidated the Corporation's Senior Lender Facilities with the Mezzanine Financing (the "Credit Facility"). The amendments to the Mezzanine Financing were deemed to be a substantial modification of terms. As such, the existing Mezzanine Financing was extinguished at its carrying value and the Credit Facility was recognized as a new liability at fair value. The difference between the carrying value of the original debt and the fair value of the modified debt was recorded as a gain on extinguishment of the Credit Facility in the amount of $14,137 in the statements of loss and comprehensive loss for year ended December 31, 2016.

On September 6, 2017, the Corporation amended the Credit Facility and obtained additional financing from the Lender. The amended Credit Facility ("Credit Facility A") has a maturity date of July 31, 2018 (changed from April 30, 2018) and an interest rate of 10% per annum. In the event of default, the interest rate increases to 19% per annum. Additional financing of up to $600,000 ("Credit Facility B") was extended by the Lender for the purpose of funding a waterflood project at the Corporation's Red Earth property. Credit Facility B has a maturity date of July 31, 2018 and has an interest rate of 12% per annum, increasing to 19% per annum in the event of default.

As at December 31, 2017, $4,662,921 (December 31, 2016 - $4,582,454) was outstanding on Credit Facility A and $387,180 (December 31, 2016 – nil) was outstanding on Credit Facility B.

Principal repayments on Credit Facility B are $30,000 per month commencing November 30, 2017, increasing to $50,000 commencing January 31, 2018. Principal repayments on Credit Facility A of $50,000 per month shall begin on the last day of the month following the repayment of Credit Facility B.

The Credit Facilities A and B (collectively, the "Amended Credit Facilities") are secured by promissory notes for $4,622,945 and $600,000, a $25,000,000 fixed and floating charge debenture, a general security agreement on the assets of the Corporation and a $4,000,000 debenture from the Corporation providing a security interest in all present and after-acquired personal property, a fixed charge on all the oil and gas assets and a floating charge over all other present and after-acquired real property.

## 15. Credit facilities *(continued)*

*Participation fee*

Per the terms of the Amended Credit Facilities, the Lender is entitled to a participation fee on the 2018 net revenues (defined as total revenues less royalties) up to a cumulative amount of $500,000. The participation fee is due on April 30, 2018.

*Covenants*

The Corporation is subject to the following covenants under the Amended Credit Facilities:

- A 1.0:1.0 current ratio;
- A Secured Debt to Trailing Cash Flow at or below:
  - 8.0:1.0 during the quarter ended June 30, 2016;
  - 6.0:1.0 during the quarter ended September 30, 2016;
  - 4.0:1.0 during the quarter ended December 31, 2016; and,
  - 3.0:1.0 during the quarter ended March 31, 2017 and thereafter.
- A corporate Licensee Liability Rating ("LLR") of 1.5 or greater; and,
- Maintain monthly sales production of 140 boe/day commencing April 30, 2016.

At December 31, 2017 and December 31, 2016, the Corporation was in breach of all the covenants except for maintaining an LLR of 1.5 or greater. As a result of the breach of covenants, the Corporation accrued interest at 19% from January 1, 2017 to December 31, 2017 amounting to $423,153 (December 31, 2016 - $278,588).

As a result of defaults relating to financial covenants and failure to make required principal repayments as required by the February 16, 2016 amendment to the Credit Facility, on September 8, 2017, the Corporation entered into a Forbearance Agreement and a Quitclaim with the Lender.

The Quitclaim provides for the transfer of title in the petroleum and natural gas assets and interests owned by the Corporation as satisfaction for all indebtedness and obligations to the Lender. In conjunction with the Quitclaim, the Corporation has also entered into a Forbearance Agreement that states that the Lender will refrain from enforcing the Quitclaim or any of the following rights until July 31, 2018:

- Terminate the Amended Credit Facilities;
- Cease to make available or extend any such Amended Credit Facilities;
- Accelerate payment of the Amended Credit Facilities; and,
- Appoint a receiver to manage the Corporation's assets.

*Warrants*

Pursuant to the terms of the February 16, 2016 amendment of the Credit Facility, the Corporation granted to the lender 333,333 Common Share purchase warrants with a term to expiry of two years and an exercise price of $0.15 per Common Share (the "New Warrants"). The terms of the New Warrants include:

- provisions that provide for a cashless exercise by the Lender;
- typical adjustment provisions to adjust the number of the New Warrants and the exercise price in the event of any share consolidation, recapitalization, reclassification, or similar transaction or reorganization of share capital; and,
- provisions allowing exercise in the event of any change in control, business combination or other transaction involving the Corporation.

The warrants issued pursuant to the June 9, 2015 amendment to the Mezzanine Financing were cancelled upon the issuance of the New Warrants

## 15. Credit facilities *(continued)*

The New Warrants contain a cashless exercise provision. As such, the New Warrants are considered a derivative liability and are required to be fair-valued at each reporting period.

The following table summarized the accounting for the Credit Facilities:

| | | Debt | | Derivative liability | | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2015 | $ | 3,332,023 | $ | 3,521 | $ | 3,335,544 |
| Revaluation of derivative at February 16, 2016 | | - | | 10,593 | | 10,593 |
| Extinguishment of original credit facility | | (3,332,023) | | (14,114) | | (3,346,137) |
| New Credit Facility | | 4,465,394 | | 48,027 | | 4,513,421 |
| Additions to Credit Facility | | 17,027 | | - | | 17,027 |
| Principal repayment | | (25,000) | | - | | (25,000) |
| Unpaid interest added to Credit Facility | | 77,006 | | - | | 77,006 |
| Accretion | | 136,636 | | - | | 136,636 |
| Revaluation of derivative at December 31, 2016 | | - | | (18,246) | | (18,246) |
| Balance, December 31, 2016 | $ | 4,671,063 | $ | 29,781 | $ | 4,700,844 |
| Additions to Credit Facility A | | 6,217 | | - | | 6,217 |
| Amounts advanced under Credit Facility B | | 417,180 | | - | | 417,180 |
| Principal repayment | | (30,000) | | - | | (30,000) |
| Accretion | | 131,066 | | - | | 131,066 |
| Unpaid deferred fee added to Credit Facility A | | 74,250 | | - | | 74,250 |
| Revaluation of derivative at December 31, 2017 | | - | | (14,390) | | (14,390) |
| **Balance, December 31, 2017** | **$** | **5,269,776** | **$** | **15,391** | **$** | **5,285,167** |

The accretion, interest and revaluation of derivative are charged to finance expense in the statements of loss and comprehensive loss.

The derivative financial liability was measured at fair value using the Black-Scholes valuation model, with the change to the fair value being recorded in finance expense as a gain on the derivative revaluation. The fair value of the derivative financial liability was determined using the following level 2 assumptions:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Risk-free interest rate (%) | 1.66 | 0.73 |
| Expected life (years) | 0.13 | 1.13 |
| Expected volatility (%) | 287 | 156 |
| Expected dividends | - | - |
| Exercise price ($) | 0.15 | 0.05 |
| Share price ($) | 0.13 | 0.05 |

## 16. Loss per share

The calculation of basic loss per share for the year ended December 31, 2017 was based on a weighted average number of common shares of 24,435,679 (December 31, 2016 – 19,463,267).

Diluted per share information is calculated by adjusting the weighted average number of common shares outstanding for the effects of potentially dilutive options. Loss per share on a diluted weighted average basis is the same as that presented for basic as all factors are anti-dilutive.

## 17. Related party transactions

During the year ended December 31, 2017, $68,480 (December 31, 2016 - $66,612) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner. Included in trade and other payables at December 31, 2017 is $72,817 (December 31, 2016 - $73,934) owing to this law firm.

During the year ended December 31, 2017, management, consulting and engineering fees of $96,000 (December 31, 2016 - $103,500), included in general and administrative expenses, were charged by two officers of the Corporation and by a Corporation controlled by an officer. Included in trade and other payables at December 31, 2017 is $14,000 (December 31, 2016 - $17,000) owing to these officers.

The above transactions with related parties are in the normal course of business.

## 18. Commitments and contingencies

In September 2016, an industry partner filed a Statement of Claim issued by the Court of Queen's Bench of Alberta, by which the industry partner claims the Corporation failed to make payments on multiple invoices pursuant to several agreements between the parties. The Corporation has filed a Counter Claim to defend certain costs that were settled. The Corporation continues to work with the industry partner to agree on a settlement. The Corporation has included the contingency in trade and other payables at December 31, 2017.

## 19. Subsequent events

*Acquisition*

On March 21, 2018 the Corporation entered into an asset purchase agreement to acquire producing oil and natural gas wells in Southwest Saskatchewan and Eastern Alberta (the "Assets") from arm's length vendors for cash consideration of $4,500,000 (the "Agreement"). The Corporation is the lead on the transaction, but is supported by an arm's-length private Corporation participant (the "Participant") who will be responsible for 80% of the purchase price. The Corporation will assign its rights and obligations under the Agreement to the Participant and in exchange will be the operator of the Assets for a minimum period of 18 months from the date of closing and shall have a 20% working interests in the Assets. The Corporation will have an option to acquire 10% of the Assets for $1,250,000 within 18 months from the date of the Agreement.

To finance acquisition the Corporation has launched a non-brokered share private placement of 18,000,000 Common Shares at a price of $0.05 per share for aggregate gross proceeds of up to $900,000. The Participant has undertaken to identify private placement participants to support 50% of the Corporation's participation in the Agreement which amounts to approximately $450,000.

The private placement and acquisition are expected to close in the last week of April 2018.

*Credit Facility amendment*

On March 27, 2018, the Corporation amended Credit Facility B to add additional security of a promissory note for $125,000 and to increase the sum of the first supplemental debenture to $7,500,000 from $4,000,000. The amount available under Credit Facility B has increased to $725,000 (from $600,000) and is to be used for the purpose of funding a waterflood project and paying outstanding property taxes at the Corporation's Red Earth property.