Georox Resources Inc.

Condensed Interim Financial Statements

June 30, 2017 and 2016

(in Canadian dollars)

The accompanying unaudited condensed interim consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim financial statements by an entity's auditor.

GEOROX RESOURCES INC.
Unaudited Statements of Financial Position

	Note		***June 30, 2017***		*December 31, 2016*
Assets					
Current assets					
Cash and cash equivalents			**112,983**		4,393
Trade and other receivables	14		**183,145**		278,185
Available-for-sale investments	7		**3,398**		27,399
Inventory			**17,778**		34,331
Total current assets			**317,304**		344,308
Non-current assets					
Property and equipment	5		**6,688,199**		6,918,124
Exploration and evaluation assets	6		**365,124**		365,461
Total assets		**$**	**7,370,627**	$	7,627,893
Liabilities					
Current liabilities					
Trade and other payables	8		**1,906,916**		1,741,306
Derivative liability	15		**29,781**		29,781
Mezzanine financing	15		**4,671,063**		4,671,063
Provision for decommissioning, current portion	9		**417,465**		415,163
Total current liabilities			**7,025,225**		6,857,313
Non-current liabilities					
Provision for decommissioning	9		**956,887**		904,541
Total liabilities		**$**	**7,982,112**	$	7,761,854
Going concern	2				
Subsequent events	19				
Shareholders' equity					
Common shares	10(b)		**10,106,434**		10,106,434
Share purchase warrants	10(d)		**214,963**		214,963
Contributed surplus			**3,106,108**		3,083,690
Accumulated other comprehensive loss			**(14,013)**		(11,013)
Cash advances for shareholders' equity			**163,120**		-
Deficit			**(14,188,097)**		(13,528,035)
Total shareholders' equity			**(611,485)**		(133,961)
Total shareholders' equity and liabilities		**$**	**7,370,627**	$	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 Income (Loss) and Comprehensive Income (Loss)
For the three and six months ended June 30,

	Note	***Three months ended June 30, 2017***	*Three months ended June 30, 2016*	***Six months ended June 30, 2017***	*Six months ended June 30, 2016*
Revenue					
Petroleum and natural gas		**526,353**	474,244	**1,044,061**	809,598
Royalties		**(66,274)**	(17,659)	**(111,320)**	(43,503)
		460,079	456,585	**932,741**	766,095
Expenses					
Operating		**350,846**	393,143	**637,784**	550,023
Depreciation, depletion and impairment	5	**165,335**	235,767	**317,592**	505,151
Stock-based compensation	10(c)	**11,355**	(291)	**22,417**	2,393
General and administrative		**188,630**	80,920	**335,624**	206,239
		716,166	709,539	**1,313,418**	1,263,806
Operating income (loss)		**(256,087)**	(252,954)	**(380,677)**	(497,711)
Loss on sale of investment		**(3,898)**	-	**(3,898)**	-
Finance expense	11	**(158,243)**	(117,118)	**(275,487)**	(241,320)
Net income (loss) for the period		**(418,228)**	(370,072)	**(660,062)**	(739,031)
Other comprehensive income (loss)					
Net change in fair value of available for sale financial assets	7	**-**	2,000	**(3,000)**	-
Other comprehensive income (loss) for the period		**-**	2,000	**-**	-
Total comprehensive income (loss) for the period		**(418,228)**	(368,072)	**(663,062)**	(739,031)
Net income (loss) per share					
Basic	16	**(0.06)**	(0.01)	**(0.10)**	(0.04)
Diluted	16	**(0.06)**	(0.01)	**(0.10)**	(0.04)

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

GEOROX RESOURCES INC.

Unaudited Statements of Changes in Shareholders' Equity

	Common Shares Number	*Amount* $	*Warrants* $	*Contributed surplus* $	*Accumulated other comprehensive loss* $	*Deficit* $	**Cash advances for shareholders' equity**	*Total Shareholders' Equity* $
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 (d))	3,266,667	196,000	-	-	-	-	-	196,000
Share capital costs (Note 10 (d))	-	(4,800)	-	-	-	-	-	(4,800)
Warrants share-based payments (Note 10 (c))		(133,146)	133,146	-	-	-	-	-
Expired warrants (Note 10 (c))			(277,103)	277,103	-	-	-	-
Options share-based payments (Note 10 (c))	-	-	-	2,393	-	-	-	2,393
Net change in available for sale investments (Note 7)	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	(739,031)	-	(739,031)
Balance, June 30, 2016	18,542,229	9,922,351	133,146	3,042,609	(25,038)	(12,527,904)	-	(545,165)
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 (d))	-	-	-	-	-	-	163,120	163,120
Options share-based payments (Note 10 (c))	-	-	-	22,418	-	-		22,418
Net change in available for sale investments (Note 7)	-	-	-	-	(3,000)	-	-	(3,000)
Net loss for the period	-	-	-	-	-	(660,062)	-	(660,062)
Balance, June 30, 2017	22,973,895	10,106,434	214,963	3,106,108	(14,013)	(14,188,097)	163,120	(611,485)

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

GEOROX RESOURCES INC.
Statement of Cash Flows
For the three and six months ended June 30,

	Note	***Three months ended June 30, 2017***	*Three months ended June 30, 2016*	***Six months ended June 30, 2017***	*Six months ended June 30, 2016*
Cash provided by (used in) the following:					
Operating activities					
Net income (loss) for the period		**$ (418,228)**	$ (370,072)	**(660,062)**	$ (739,031)
Adjustments for non-cash items:					
Stock-based compensation	10(c)	**11,355**	(291)	**22,418**	(291)
Depreciation, depletion and impairment	5	**165,335**	235,267	**317,592**	505,151
Loss on sale of investments		**3,898**	-	**3,898**	-
Finance expense – provision for decommissioning	11	**4,374**	3,430	**8,970**	8,174
		$ (233,266)	$ (128,666)	**(307,184)**	$ (225,997)
Changes in non-cash working capital balances:					
Change in trade and other receivables		**68,089**	65,573	**95,040**	(19,741)
Change in inventory		**7,919**	(14,564)	**16,553**	(10,511)
Change in trade and other payables		**103,726**	(57,958)	**165,608**	64,452
Net cash flows provided by operating activities		**$ (53,532)**	$ (138,615)	**(29,983)**	$ (191,797)
Investing activities					
Sale of investment		**17,102**	-	**17,102**	-
Purchase of property and equipment	5	**(18,353)**	7,800	**(41,649)**	8,010
Purchase of exploration and evaluation assets	6	**-**	(4,500)	**-**	(9,000)
Net cash flows used in investing activities		**$ (1,251)**	$ 3,300	**(24,547)**	$ (990)
Financing activities					
Issue of common shares, net of issue costs		**-**	191,198	**-**	193,882
Cash advances for shareholders' equity		**163,120**	-	**163,120**	-
Advances of mezzanine financing	15	**-**	13,800	**-**	1,233,427
Repayment of bank indebtedness	15	**-**	(7,452)	**-**	(1,172,291)
Net cash flows provided by (used in) financing activities		**$ 163,120**	$ 197,546	**163,120**	$ 255,018
Net decrease in cash and cash equivalents		**108,337**	-	**108,590**	-
Cash and cash equivalents, beginning of period		**4,646**	-	**4,393**	62,231
Cash and cash equivalents, end of period		**$ 112,983**	$ 62,231	$ **112,983**	$ -
Cash interest paid			126,917	**153,869**	239,910
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 2400, 525 – 8th Avenue SW, Calgary, Alberta, Canada, T2P 1G1.

These financial statements were approved for issuance by the Board of Directors on August 23, 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 generated a net loss of $(663,062) (2016 – net loss of $739,031) for the six months ended June 30, 2017. As of June 30, 2017, the Corporation had working capital of negative $6,707,921 (June 30, 2016 – negative $1,293,773) and an accumulated deficit of $14,188,097 (2016 – $12,527,904). 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 and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Corporation as a going concern is dependent upon the ability of the Corporation to obtain necessary equity or other financing to continue exploring its oil and gas properties, and/or to attain sufficient profitable operations. The ability of the Corporation to be successful in obtaining financing cannot be predicted at the present time. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue as a going concern.

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”) in effect as at January 1, 2015.

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.

3. Basis of presentation *(continued)*

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

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

Judgments:

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.

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.

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.

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.

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.

3. Basis of presentation *(continued)*

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

Estimates:

Depletion and valuation of production and development assets

Reserves estimates, although not reported as part of the Corporation's consolidated financial statements, can have a significant effect on net income, assets and liabilities as a result of their impact on depletion, depreciation and amortization ("DD&A"),decommissioning liability, 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, 2016 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, 2016, 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.

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. Share-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, 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.

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.

3. Basis of presentation *(continued)*

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

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.

4. Significant accounting policies

These condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of the Corporation for the year ended December 31, 2016. These condensed interim financial statements should be read in conjunction with the annual financial statements and notes thereto in the Corporations' annual filings for the year ended December 31, 2016.

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, including acquisition	(8,010)	-	(8,010)
Change in decommissioning liability	44,523	-	44,523
Balance at June 30, 2016	15,309,808	16,061	15,325,689
Balance at December 31, 2016	12,872,312	16,061	12,888,373
Additions, including dispositions	41,650	-	41,650
Change in decommissioning liability	46,017	-	46,017
Balance at June 30, 2017	**12,959,979**	**16,061**	**12,976,040**
Accumulated depletion, depreciation and impairment			
Balance at December 31, 2015	7,390,593	16,061	7,406,654
Depletion, depreciation and impairment	505,151	-	505,151
Balance at June 30, 2016	7,895,744	16,061	7,911,805
Balance at December 31, 2016	5,954,188	16,061	5,970,249
Depletion, depreciation and impairment	317,592	-	317,592
Balance at June 30, 2017	**6,271,780**	**16,061**	**6,287,841**
Net book value at June 30, 2016	7,414,064	-	7,414,064
Net book value at December 31, 2016	7,882,701	-	7,882,701
Net book value at June 30, 2017	**6,688,199**	**-**	**6,688,199**

Future capital expenditures of $4,478,800 (2015 - $5,073,900), as estimated by independent engineers, relating to the development of reserves have been included in costs subject to depletion.

5. Property and equipment *(continued)*

For the year ended December 31, 2016, the Corporation recorded an impairment loss of $nil (2015 - $783,410) on development and production assets in respect of the Red Earth property. The impairment was primarily a function of reduced estimated reserve values due to the lower commodity price environment.

During the year ended December 31, 2016, the Corporation assigned its working interest in the Coteau 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 reduce the asset value and associated impairment and depletion costs to $Nil.

The Corporation determined the recoverable amounts for its CGUs based on the higher of value-in-use and fair value less costs of disposal methods 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 and value in use 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% (2016 – 2%) and discounted using a before-tax discount rate of 15% (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, 2016:

	2017	***2018***	***2019***	***2020***	***2021***	***Increase thereafter***
Light Oil per BBL ($Cdn)	65.58	74.51	78.24	80.64	82.25	1.5%
Heavy Oil per BBL ($Cdn)	53.12	61.85	64.94	66.93	68.27	1.5%
Natural Gas ($Cdn)	3.44	3.27	3.22	3.91	4.00	1.5%

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 income (loss). A three percent increase in the assumed discount rate would not result in an additional impairment expense for the year ended December 31, 2016.

6. Exploration and evaluation assets

Cost		
Balance at December 31, 2015	$	403,298
Additions		9,000
Change in provision for decommissioning		2,042
Balance at June 30, 2016	**$**	**414,340**
Balance at December 31, 2016		365,461
Change in provision for decommissioning		(337)
Balance at December 31, 2016	**$**	**365,124**

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, 2016, the Corporation recorded impairment charges of $52,436 for the Virginia Hills CGU (2015 - $Nil) and $62,017 for the Swan Hills CGU (2015 - $Nil).

7. Available for sale investments

		2017		2016
Investments in Securities				
Investment in high interest yield account	**$**	**3,398**	$	3,374
Common shares, Yorkton Ventures Inc.		**-**		10,000
	$	**3,398**	$	13,374

The common shares held are recorded at fair value using quoted closing market prices at the statement of financial position date. During the six months ended June 30, 2017, the Corporation sold the shares in Yorkton Ventures Inc. and recorded a loss on the sale of $3,898 (2016 –$NIL).

8. Trade and other payables

		2017		2016
Trade payables	**$**	**1,432,604**	$	1,256,085
Accruals and other accounts payable		**463,338**		355,531
GST/HST Payable		**10,974**		2,835
Total trade and other payable	**$**	**1,906,916**	$	1,614,451

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 June 30, 2017 to be $1,606,223 (2016 - $1,605,865) 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 1.1% to 2.07% and an inflation factor of 2.0% (2016 – 0.54% to 1.86%, and 2% respectively). Settlement of the obligations will be funded from general corporate funds at the time of retirement. As at June 30, 2017, no funds have been set aside to settle these obligations (2016 - $nil).

Balance at December 31, 2015	$	1,381,285
Changes in estimates and assumptions		46,566
Unwinding of discount		8,174
Balance at June 30, 2016	**$**	**1,436,025**
Balance at December 31, 2016	**$**	**1,319,704**
Changes in estimates and assumptions		45,679
Unwinding of discount		8,969
Balance at June 30, 2017	**$**	**1,374,352**

10. Share capital

As of May 2, 2016, the Company consolidated its shares on a one- for–three-old basis pursuant to a special resolution passed by shareholders on April 30, 2016. All references to common shares, per share amounts, warrants, and options 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 during the year, net of warrant value			3,266,667	62,854
Share issue costs				(4,800)
Balance, end of quarter	**22,973,895**	**$ 10,106,434**	18,542,229	9,922,351

On June 29, 2015, the Corporation completed a private placement of 2,496,667 units at a price of $0.05 per unit for gross proceeds of $374,500. Each unit consisted of one common share of the Corporation and one-half of one Common Share purchase warrant. In addition, 121,100 Common Share purchase warrants were issued to the brokers of the transaction. Each whole warrant shall be exercisable for one Common Share at a price of $0.10 per Common Share. The Common Share purchase warrants expired on June 30, 2016. The fair value of the 1,369,433 warrants, $277,103 was determined using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 0.56%; expected life of 1 year, expected volatility of 188%. The warrants have expired unexercised.

On April 20, 2016 the Corporation announced a non-brokered Private Placement. On August 15, 2016 the Corporation closed the private placement of 7,698,333 for aggregate proceeds of $461,899.98 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 to and including April 30, 2018. 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.

10. Share capital *(continued)*

(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.

During the six months ended June 30, 2017, nil (2016 – nil) options were granted to directors of the Corporation and nil (2015 – nil) options were granted to management of the Corporation. The fiscal 2016 options expire in 5 years from the grant date. 600,000 options vest 1/3 immediately and 1/3 on each of the first and second anniversaries of the date of grant, while 1,000,000 options vest ¼ immediately and ¼ on each of the first, second and third six month anniversaries. The fair value of the options granted of $89,260 was determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

Risk-free interest rate (%)	0.72%
Expected life (years)	5
Expected volatility (%)	153.98%
Expected dividend yield (%)	NIL%
Weighted average fair value ($)	0.09
Forfeiture rate	3%

A summary of the Corporation's option plan as of June 30, 2017 and June 30, 2016 and changes during the period 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 quarter	**1,200,000**	**0.14**	358,333	0.42
Granted	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Balance, end of period	**1,200,000**	**0.14**	358,333	0.42

10. Share capital *(continued)*

During the six months ended June 30, 2017, stock-based compensation of $22,418 (2016 - $2,393) was recorded relating to stock options which vested during the current period.

As at June 30, 2017, the following options are outstanding:

Date of Grant	*Number outstanding*	*Number exercisable*	*Weighted average exercise price*	*Expiry date*
June 10, 2014	200,000	200,000	0.30	June 9, 2019
October 7, 2016	1,000,000	333,335	0.10	October 6, 2021
	1,200,000	533,335	0.14	

(d) Warrants

During the year ended December 31, 2016, the Corporation issued 7,698,333 share purchase warrants in connection with the May 20, 2016 and July 4, 2016 private placement (note 10(b)) (2015 – Nil). 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 six months ended June 30, 2017 and 2016 is as follows:

	June 30, 2017			June 30, 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	**-**		**-**	3,266,667		133,146
Balance, end of period	**7,698,333**	**$**	**214,963**	3,266,667	$	133,146

11. Finance expense

		2017		*2016*
Interest expense		**(266,518)**		(233,146)
Unwinding of discount on provision for decommissioning		**(8,969)**		(8,174)
Finance expense	**$**	**(275,487)**	$	(241,320)

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	**$**	**18,000**	$	18,000
Stock-based compensation		**22,418**		2,393
Total key management remuneration	**$**	**40,418**	$	20,393

Deferred Share Units (DSU's)

For the six months ended June 30, 2017, 231,818 DSU's were granted (2016 – 212,500), with a fair value of $12,250 (2016 - $9,000) which is included in general and administration expense. As at June 30, 2017, 661,763 DSU's (2016 – 871,067), were vested and outstanding and $49,500 (2016 - $39,000) is included in trade and other payables.

	2017 Number of DSU's	*2016 Number of DSU's*
Balance at December 31	**871,067**	619,567
Forfeited	**421,804**	-
Granted	**212,500**	212,500
Outstanding at June 30	**661,763**	871,067
Exercisable at June 30	**661,763**	871,067

13. Taxes

At December 31, 2016, the Corporation has approximately $5,158,729 (2015 - $3,657,400) tax 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		1,501,329
	$	5,158,729

14. Fair values and risk management

(a) Fair values

The Corporation's financial instruments consist of trade and other receivables, available-for-sale investments, trade and other payables, bank indebtedness, mezzanine financing, payable to shareholders and derivative liability.

The fair value of trade and other receivables, trade and other payables, bank indebtedness and mezzanine financing approximate their carrying value due to the short-term nature of those instruments.

The available-for-sale investments are recorded at fair value using quoted closing market prices at the statement of financial position date.

Prior to extinguishment (note 17), the fair value of the payable to shareholder approximated carrying value as the amount was due on demand.

The derivative liability is required to be fair-valued at each reporting period. 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.

Bank indebtedness and available for sale 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 Mezzanine Financing 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.

(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 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. The Corporation makes allowance for doubtful accounts based on management's assessment of collectability. The allowance for doubtful accounts at June 30, 2017 was $134,830 (2016 - $114,830). As at June 30, 2017 and June 30, 2016, the majority of accounts receivable relates to amounts due from marketers of the Corporation's oil and natural gas amounts. 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.

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

As at June 30, 2017 and 2016, the Corporation's trade and other receivables were comprised of the following:

		2017		*2016*
Petroleum and natural gas sales	**$**	**153,622**	$	185,917
Other receivables		**29,523**		33,726
Receivable from related parties		**-**		20,000
	$	**183,145**	$	239,643

As at June 30, 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)	**$**	**98,897**	$	175,400
31 to 60 days		**5,569**		1,870
61 to 90 days		**4,036**		664
Past due (over 90 days)		**45,120**		7983
Total trade receivables	**$**	**153,622**	$	185,917

(ii) Liquidity risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its 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.

The following table outlines the contractual maturities of the Corporation's liabilities:

		Less than one year		1 - 3 years
Bank indebtedness	$	-	$	-
Trade and other payables		1,304,969		-
Derivative liability		29,781		-
Mezzanine financing		4,671,064		-
	$	6,005,814	$	-

(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 Corporation is mainly exposed to interest rate risk through its Mezzanine financing which is fixed (note 15).

Foreign currency risk

The Corporation's functional currency is the Canadian dollar. Management believes the foreign exchange risk from currency fluctuations relating to financial instruments held in foreign currencies is negligible. At June 30, 2017 and 2016, the Corporation held no foreign currency instruments.

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

(iii) Market risk *(continued)*

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 six months ended June 30, 2017 or 2016.

During the six months ended June 30, 2017, if production remained constant and the Corporation realized commodity prices changed by $10.00 per barrel of oil equivalent, the Corporation's net income would vary by $189,233.

(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. 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 six months ended June 30, 2017. The Corporation's working capital at June 30, 2017 was negative $6,707,921 (June 30, 2016 – negative $1,293,773).

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") which was classified as bank indebtedness on the statement of financial position.

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 "Amended Credit Facility") for a total amended credit facility of $4,513,421. The Amended Credit Facility has a maturity date of April 30, 2018 and an interest rate of 10% per annum. In the event of default, the interest rate increases to 19% per annum. Repayment is interest only until April 30, 2016 at which time principal repayments of $25,000 per month commence. Principal repayments increase to:

- $50,000 per month commencing on the later of:
  - October 31, 2016; and,
  - A pre-determined West Texas Intermediate Crude ("WTI") price threshold for the first 30 days for a consecutive period which price of WTI Crude exceeds US45/barrel.
- $75,000 per month commencing on the later of:
  - April 30, 2017; and,
  - A pre-determined WTI price threshold for the first 30 days for a consecutive period during which the WTI crude exceeds US$55/barrel.

15. Credit facilities *(continued)*

The Amended Credit Facility is secured by a promissory note for $3,407,000, 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.

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 Amended 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 credit facility in the amount of $14,137 in the statement of loss and comprehensive loss.

Participation fee

Per the terms of the Amended Credit Facility, the Lender is entitled to a participation fee on the 2017 and 2018 net revenues (defined as total revenues less royalties) up to a cumulative amount of $500,000. If the Amended Credit Facility is fully repaid by March 31, 2017, the 2018 Participation fee will be cancelled. As at March 31, 2017, the amended credit facility remained outstanding.

Covenants

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

- 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, 2016 and 2015, 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 May 2016 to December 2016 amounting to $278,588 (December 31, 2015 - $116,830).

Warrants

Pursuant to the terms of the Amended Credit Facility, the Corporation granted to the lender 333,333 Common Share purchase warrants with a term to expiry of one year 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.

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.

15. Credit facilities *(continued)*

The following table summarized the accounting for the Mezzanine Financing:

	Mezzanine Financing	Derivative liability	Total
Balance, December 31, 2014	$ -	$ -	$ -
Additions	3,225,821	74,179	3,300,000
Accretion	74,179	-	74,179
Derivative gain	-	(70,658)	(70,658)
Addition of unpaid interest	32,023	-	32,023
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)
Amended 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**

The accretion, interest and revaluation of derivative are charged to finance expense in the statement 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:

	February 16, 2016	**December 31, 2016**	June 30, 2015	December 31, 2015
Risk-free interest rate (%)	0.48	0.73	0.48	0.48
Expected life (years)	2.00	1.13	1.00	0.50
Expected volatility (%)	173	156	188	179
Expected dividends	-	-	-	-
Exercise price ($)	0.05	0.05	0.33	0.33
Share price ($)	0.06	0.05	0.33	0.09

16. Income (loss) per share

The calculation of basic income (loss) per share for the six months ended June 30, 2017 was based on a weighted average number of common shares after consolidation of 22,415,384 (2016 – 15,642,503).

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 six months ended June 30, 2017, $30,000 (2016 - $25,000) 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 June 30, 2017 is $88,934 (2016 - $77,014) owing to this law firm.

During the six months ended June 30, 2017, management, consulting and engineering fees of $57,000 (2016 - $25,000) included in general and administrative expenses were charged by two officers of the Corporation and by a company controlled by an officer. Included in trade and other payables at June 30, 2017 is $31,000 (2016 - $34,734) owing to these officers.

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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 failed 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 has included the contingency in trade and other payables at December 31, 2016.

19. Subsequent events

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 on July 27, 2017. Each Unit consists of one common share of the Corporation and one half of a Common Share purchase warrant. Each Warrant shall be exercisable for one Common Share at a price of $0.14 per Common Share for a period to and including May 22, 2019.

The Corporation issued 353,846 Common Shares in connection with arrangements with a consultant for 200,000 Common Shares at a price of $0.05 per share and 153,846 Common Shares at a price of $0.065 per share for the services rendered to the Corporation by the Consultant.

After giving effect to both the Private placement and the Common Share issuance to the Consultant, the Corporation has 26,372,278 Common shares outstanding on a basic basis.