KNOL RESOURCES CORP.

Consolidated Financial Statements

For the year ended December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Knol Resources Corp.:

We have audited the accompanying consolidated financial statements of Knol Resources Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Knol Resources Corp. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants

April 19, 2016
Calgary, Alberta

KNOL RESOURCES CORP.
Consolidated Statements of Financial Position
In Canadian dollars

	December 31 2015	December 31 2014
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 4)	**4,628,415**	5,053,231
Accounts receivable	**13,726**	16,530
Prepaid expenses	**3,773**	3,168
Total current assets	**4,645,914**	5,072,929
Restricted cash (note 4)	**26,603**	49,967
Total assets	**4,672,517**	5,122,896
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	**51,972**	43,500
Liabilities associated with assets held for sale (note 5)	**50,000**	50,000
Asset retirement obligation (note 6)	**43,850**	200,000
Total liabilities	**145,822**	293,500
Shareholders' equity		
Share capital (note 7a)	**75,191,873**	75,191,873
Equity reserves (note 7b)	**22,947,225**	22,947,225
Deficit	**(93,612,403)**	(93,309,702)
Total shareholders' equity	**4,526,695**	4,829,396
Total liabilities and shareholders' equity	**4,672,517**	5,122,896

Basis of presentation (note 3b)

On behalf of the Board of Directors:

"Bryce Rhodes" Director   *"Daryl Clark"* Director

See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.

Consolidated Statements of Net Loss and Comprehensive Loss
In Canadian dollars

	Years Ended December 31	
	2015	2014
	$	$
Expenses		
General and administrative:		
Consulting fees (note 10)	**164,026**	159,477
Environmental reclamation (note 6)	**60,563**	191,300
Non-refundable sales tax (note 8)	**54,498**	-
Legal and audit services	**40,906**	79,144
Investor relations and exchange listing and filing fees	**22,137**	34,117
Office expenses	**20,247**	24,903
Insurance	**12,995**	11,638
Land leases	**5,825**	30,117
Share-based compensation (note 7b)	**-**	146,279
Net loss before interest	**(381,197)**	(676,975)
Interest income	**78,496**	53,006
Net loss before income taxes	**(302,701)**	(623,969)
Income taxes	**-**	-
Net loss and comprehensive loss	**(302,701)**	(623,969)
Basic and diluted loss per share (note 7c)	**(0.01)**	(0.01)

See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.

Consolidated Statements of Changes in Shareholders' Equity

In Canadian dollars

	Common Shares	Equity Reserves: Expired Options and Warrants	Equity Reserves: Outstanding Options and Warrants	Equity Reserves: Equity Reserves Subtotal	Deficit	Total
	$	$	$	$	$	$
January 1, 2014	70,882,574	22,509,921	-	22,509,921	(92,685,733)	706,762
Net loss and comprehensive loss	-	-	-	-	(623,969)	(623,969)
Private placement, net of issuance costs (note 7)	4,309,299	-	291,025	291,025	-	4,600,324
Share-based compensation	-	-	146,279	146,279	-	146,279
December 31, 2014	75,191,873	22,509,921	437,304	22,947,225	(93,309,702)	4,829,396
Net loss and comprehensive loss	-	-	-	-	(302,701)	(302,701)
December 31, 2015	**75,191,873**	**22,509,921**	**437,304**	**22,947,225**	**(93,612,403)**	**4,526,695**

See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.
Consolidated Statements of Cash Flows
In Canadian dollars

	Years Ended December 31	
	2015	2014
	$	$
Cash and cash equivalents (used in) provided by:		
Operating activities		
Net loss for the period	**(302,701)**	(623,976)
Add back:		
Share-based compensation	**-**	146,279
Less:		
Interest income	**(78,496)**	(53,006)
Add back (less) changes in non-cash working capital:		
Accounts receivable and prepaid expenses	**2,199**	(12,262)
Accounts payable and accrued liabilities	**8,472**	(43,607)
Asset retirement obligation	**(156,150)**	200,000
Total cash and cash equivalents used in operating activities	**(526,676)**	(386,572)
Investing activities		
Interest received	**78,496**	53,006
Refund of deposit held as restricted cash	**23,364**	-
Total cash and cash equivalents provided by investing activities	**101,860**	53,006
Financing activities		
Proceeds from private placement of common shares, net of cash issuance costs	**-**	4,600,324
Total cash provided by financing activities	**-**	4,600,324
(Decrease) increase in cash and cash equivalents	**(424,816)**	4,266,758
Cash and cash equivalents beginning of the period	**5,053,231**	786,473
Cash and cash equivalents end of the period	**4,628,415**	5,053,231

Non-cash financing activities:

1. In addition to cash issuance costs, warrants with a $291,025 fair value were issued as finders' fees in the year ended December 31, 2014, and have been reported as a reduction in share capital.

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Knol Resources Corp. (the "Corporation") seeks opportunities to acquire or participate in the exploration and development of petroleum and natural gas ("P&NG") assets in Western Canada. As of the date these consolidated financial statements were authorized by the Corporation's Board of Directors, the Corporation has no significant operating assets.

The Corporation is incorporated in Alberta, Canada, and its principal place of business is Suite 1703, Three Bentall Centre, 595 Burrard Street, Vancouver, BC, V7X 1J1.

The Corporation's common shares trade on the NEX board of the TSX-Venture Exchange under the symbol "NOL.H".

2. STATEMENT OF COMPLIANCE

These consolidated financial statements, including comparative periods, have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved by the Corporation's Board of Directors on April 19, 2016.

3. ACCOUNTING POLICIES

a) Basis of consolidation

In addition to the Corporation's results, these consolidated financial statements include the balances and results of entities over which the Corporation exercises control. Control is achieved where the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These consolidated financial statements include the financial results of all controlled entities from the date control commences until the date that control ceases. All transactions between consolidated entities are eliminated in the consolidation of reported amounts.

All comparative information included in these consolidated financial statements includes the Corporation's accounts and those of two wholly-owned subsidiaries:

- CPH-Sarcee Corporation
- CPH-Investment Corporation

On January 2, 2015, both CPH-Sarcee Corporation and CPH-Investment Corporation, which held no assets or liabilities, earned no revenues and incurred no expenses, were dissolved. Amounts reported for the 2015 periods in these financial statements relate only to the accounts of the Corporation.

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for the assets and related liabilities classified as held for sale, which are measured at fair value, and financial instruments which are described in Note 3c.

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation and all consolidated subsidiaries.

c) Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or "financial liabilities“ as follows:

i) Financial assets

Financial assets comprise cash and cash equivalents, accounts receivable and restricted cash. Cash and cash equivalents comprise deposits held at financial institutions, and are classified as fair value through profit and loss and are measured at fair value. Accounts receivable are classified as loans and receivables and are recorded at amortized cost less any impairment. Restricted cash includes cash on deposit with regulators for future environmental reclamation, and is classified as fair value through profit and loss and measured at fair value.

ii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities, which are classified as financial liabilities measured at amortized cost using effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as financing expense.

d) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. 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 as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Corporation’s accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Fair value is based on recent purchase offers, market transactions for similar assets, or appropriate valuation models.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in the consolidated statement of loss and comprehensive loss. Property, plant and equipment and intangible assets are no longer depreciated once classified as held for sale, but interest and other expenses attributable to the liabilities of a disposal group or asset held for sale are recognized.

e) Asset retirement obligation

The Corporation recognizes an asset retirement obligation, in the period a well or related asset is drilled, constructed or acquired, for the expected costs to abandon wells and related facilities, remove equipment from leased acreage and return such land to its original condition. The asset retirement obligation is estimated at the present value of the estimated expected future cash outflows, discounted using a risk–free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment and a corresponding liability is recognized.

Subsequent to initial recognition, the obligation is reviewed regularly by management, based upon current regulations, costs, technologies and industry standards, as well as to changes in the risk-free rate. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. The accretion of the obligation is recorded as a financing cost in the consolidated statement of loss and comprehensive loss, and actual abandonment and reclamation expenditures are charged to the accumulated obligation as incurred and obligations related to properties disposed are removed.

The amount of the capitalized retirement obligation is depleted and depreciated on the same basis as the other capitalized property, plant and equipment.

f) Stock-based compensation

Stock options granted by the Corporation to directors, officers, employees and consultants are measured at their fair values. Fair values of stock options issued are determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options; a corresponding increase is recorded to contributed surplus.

When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. At the end of each reporting period, the Corporation revises its estimate of the number of options expected to vest.

g) Share purchase warrants

Warrants with the right to acquire common shares in the Corporation are typically issued through the Corporation's debt or equity financing activities. The fair values of these warrants are determined on their issuance date, using the Black-Scholes option pricing model, and are recorded as both a separate component of shareholders' equity and as a reduction in the values of related debt or share capital.

When share purchase warrants are exercised, the cash proceeds along with the amount previously recorded as a separate component of shareholders' equity are recorded as share capital. When share purchase warrants expire, the amount previously recorded as a separate component of shareholders' equity is reclassified to contributed surplus.

h) Share issue costs

Costs incurred to issue shares, which may include cash or equity-settled payments, are accounted for as a reduction in share capital.

i) Income taxes

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

j) Per share amounts

Basic (loss) earnings per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which include stock options and warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options are used to purchase common

shares of the Corporation at their average market price for the period. In periods that the Corporation reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

k) Judgments, estimates and measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make judgments, significant estimations or where measurements are uncertain are as follows:

i. Asset retirement obligation

The asset retirement obligation reported by the Corporation is based on estimates for the amount and timing of future cash flows for property reclamation. Where possible, the Corporation's management uses quotes from reclamation service providers in establishing the amount of reclamation expenses and estimates for the timing of such expenses is based on related property productivity and the requirements of environmental regulators. The amount or timing of actual reclamation expenditures could differ from those used to determine the asset retirement obligation provision, and could result in an increase or decrease in related expenses.

ii. Assets and liabilities held for sale

The measurement of assets and liabilities held for sale requires management to use judgment to estimate their fair values. Management bases these fair values on factors such as prices discussed during sale negotiations and estimates for discounted present values of cash flows related to these assets and liabilities.

An inability to successfully negotiate a sale of these assets and liabilities, or changes to the amount or timing of related cash flows could adversely affect their fair values.

iii. Income taxes

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Corporation to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Corporation will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Corporation's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

iv. Stock-based compensation

The Corporation uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires management to estimate the volatility of the Corporation's future share price, the risk-free interest rate, expected lives of stock options and

future dividend yields and the number options granted which will be forfeited before vesting. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

l) New and amended IFRS adopted by the Corporation

The Corporation has applied the following new IFRS amendment starting January 1, 2015:

i. IFRS 3, Business Combinations

IFRS 3 was amended to provide clarification related to (i) contingent consideration in a business combination and (ii) scope exception for joint arrangements.

ii. IFRS 8, Operating Segments

IFRS 8 was amended to require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported.

iii. IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

IAS 16 was amended to classify how gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model.

iv. IAS 24, Related Party Transactions

IAS 24 was amended to (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements.

The adoption of these standards did not result in changes to amounts or note disclosures previously reported by the Corporation.

m) Future changes in accounting standards

The following are new and revised accounting pronouncements that have been issued, but are not yet effective for the year beginning January 1, 2015:

i. IFRS 9, Financial Instruments

The IASB intends to replace IAS 39 – "*Financial Instruments: Recognition and Measurement*" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

ii. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 has been amended to adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. These amendments are effective for annual periods beginning January 1, 2016.

iii. IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, following a one-year extension granted in September 2015, with early adoption permitted.

iv. IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which eliminates the classification of leases as either operating or financing leases for a lessee. Under IFRS 16, unless their durations are for 12 or fewer months or are for low-value assets, all leases will be deemed finance leases, resulting in leased assets and lease liabilities being included on the statement of financial position. Expenses will be recognized through the amortization of leased assets rather than through lease payments. IFRS is effective for annual periods beginning on or after January 1, 2019; early adoption is permitted if IFRS 15 is also applied.

Management has determined that the application of these pronouncements is not expected to have a significant impact on the Corporation's financial statements.

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

As at December 31, 2015, the Corporation held cash in an operating account with a Schedule 1 Chartered Canadian bank and cash equivalents in the form of a term deposit with another Canadian financial institution with an R-1(low) credit rating from DBRS. The term deposit can be withdrawn on demand and earns a rate of 1.40% as at December 31, 2015 (December 31, 2014 – 1.74%). A breakdown of the Corporation's cash and cash equivalents is as follows:

	December 31, 2015	December 31, 2014
	$	$
Cash	**123,536**	415,063
Cash equivalents	**4,504,879**	4,638,168
Total	**4,628,415**	5,053,231

Interest earned on the Corporation's cash and cash equivalents for the year ended December 31, 2015 was $78,496 (2014 - $53,006).

As a December 31, 2015, the Corporation held $26,603 (December 31, 2014 - $49,967) in cash restricted by a government authority for environmental reclamation. During the year ended December 31, 2015, the Corporation received a $23,364 refund of this upon the abandonment of a well. The remaining $26,603 will be returned after surface reclamation of the related well site has been approved.

5. LIABILITIES CLASSIFIED AS HELD FOR SALE

The Corporation had an insignificant number of oil and gas interests, which it is actively seeking to sell. The carrying value of these assets has been written-off to $nil for all periods presented, and the carrying value of related liabilities as at December 31, 2015 and 2014 is $50,000, reflecting management's estimate for the costs of disposal.

6. ASSET RETIREMENT OBLIGATION

Changes to the Corporation's asset retirement obligation are as follows:

	Carrying Amount
	$
December 31, 2013	-
Recognition of asset retirement obligation	200,000
December 31, 2014	200,000
Change in cost estimates	60,563
Costs incurred for reclamation work performed	(216,713)
December 31, 2015	**43,850**

In the year-ended December 31, 2014, the Corporation re-acquired a deep gas well for which it is the operator, after the counter-party to a previous sale agreement was unable to execute the terms of the transaction. The Corporation incurred an environmental reclamation expense of $191,300 for the period, which reflected management's estimate to abandon the well and reclaim the well site, net of proceeds from a legal settlement with the counter-party, and as at December 31, 2014, the Corporation reported a $200,000 liability for this obligation.

During the year ended December 31, 2015, the Corporation engaged contractors to abandon the well and to conduct preliminary ("Phase 1") assessments at the well site. As a result of this work, the Corporation recognized $60,563 in additional reclamation expenses for changes in the estimated scope of work required, and total billings to the Corporation was $216,713.

Costs for the Corporation's remaining liability are expected to be incurred in 2016. Their accrual reflects the Corporation's best estimates for the scope of work required and costs thereof, based on discussions with potential third-party service providers. Actual costs to be incurred are contingent on many factors including the success rates for vegetation growth, approval of completed work by regulators and specific-site conditions. Should the expected scope of work change or should actual costs differ from those estimated, additional reclamation expenses may be incurred or a reversal of current expenses may be reported in future periods. Owing to the short timeline for the expected cash outflows, there is no inflationary adjustment to or discounting of expected reclamation expenditures.

7. SHAREHOLDERS' EQUITY

a) Share capital – common and preferred shares

Authorized

Unlimited number of common voting shares with no par value.
Unlimited number of preferred shares with no par value.

Common and preferred shares issued and outstanding

Changes to the Corporation's share capital are summarized as follows:

	Number of Common Shares	Assigned Value
		$
Outstanding, December 31, 2013	5,696,470	70,882,574
Private placement, net of transaction costs	50,000,000	4,309,299
December 31, 2014 and 2015	**55,696,470**	**75,191,873**

On April 11, 2014, the Corporation issued 47,000,000 units by way of a private placement (the "Units"). Each Unit was sold at a price of $0.10 and comprised one common share and one common share purchase warrant exercisable for an additional common share at an exercise price of $0.20, expiring April 11, 2019 or earlier if an acceleration clause is invoked (see note 7b.ii). On April 15, 2014, the Corporation closed a second tranche and issued an additional 3,000,000 Units.

The $0.10 fair value of the Units was bifurcated between the common share and warrant components on an incremental basis, with the value being attributed first to the common shares to the fair market value of the shares with any excess in the Unit price over the fair market value of common shares being attributed to the warrants. Consequently, the entire value was attributed to the common shares and $nil to the warrants.

The Corporation incurred $690,701 in issuance costs, which has been presented as a reduction in share capital. These issuance costs include $399,676 in cash finders' fees and other transaction costs, as well as compensatory warrants with a fair value of $291,025 that were issued to finders. Of these costs, $257,064 in cash fees and warrants with a fair value of $242,626 were issued to entities related to a significant shareholder of the Corporation for finders' services.

b) Equity reserves - stock options and warrants

i. Stock options

Pursuant to the Corporation's stock option plan, the aggregate number of shares that may be reserved for issuance under the plan shall not exceed 10% of the Corporation's issued and outstanding common shares. The number of options granted, as well as their vesting terms, contractual lives and exercise prices are at the discretion of the Board of Directors, provided that the exercise price is not less than the market price of the common shares on the grant date.

Changes to stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
		$
Outstanding, December 31, 2013	-	-
Options granted	1,575,000	0.10
December 31, 2014	1,575,000	0.10
Options cancelled	(75,000)	0.10
December 31, 2015	**1,500,000**	**0.10**

During the year ended December 31, 2014, the Corporation granted 1,575,000 stock options to directors, officers and a consultant to the Corporation. The stock options, all of which vested on granting, have an exercise price of $0.10 and expire May 21, 2019. The fair value for these options is $146,279, which was determined using the Black-Scholes option-pricing model using the following inputs:

Input	Value
Exercise price	$0.10
Market price of common shares on grant date	$0.10
Volatility	159.75%
Risk-free rate	1.56%
Expected life	5 years
Dividend yield	0.00%

Stock options outstanding and exercisable as at December 31, 2015 are summarized as follows:

Exercise price	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Number of Exercisable Options
$		Years	
0.10	**1,500,000**	**3.4**	**1,500,000**

ii. Warrants

Changes to warrants outstanding are as follows:

	Number of Warrants	Assigned Value	Weighted Average Exercise Price
		$	$
Outstanding, December 31, 2013	-	-	-
Unit Warrants issued	50,000,000	-	0.20
Finders' Warrants issued	2,570,600	291,025	0.10
December 31, 2014 and 2015	**52,570,600**	**291,025**	**0.20**

As a result of the private placements of Units, comprising one common share and one share purchase warrant, issued on April 11, 2014 and April 15, 2014, the Corporation issued 50,000,000 share purchase warrants in the year ended December 31, 2014 (the "Unit Warrants"). The Unit Warrants are exercisable for common shares in the Corporation at an exercise price of $0.20 and expire April 11, 2019, unless the closing price and the volume-weighted average price of the Corporation's shares are both greater than $0.40 for a period of 10 consecutive trading days. In this event, the Corporation may, at its sole discretion, issue notice of an accelerated expiration of the Unit Warrants, upon which the Unit Warrants will expire 30 days following the issuance of such notice ("Acceleration Clause"). No fair value was attributed to the Unit Warrants, as the entire value of the Units was attributed to the common share component.

In connection with the private placement of Units, the Corporation issued 2,570,600 compensatory warrants to investee finders during the year ended December 31, 2014 (the "Finders' Warrants"). Each Finders' Warrant is exercisable for one common share in the Corporation at an exercise price of $0.10 and expires on April 11, 2016. The $291,025 fair value of the Finders' Warrants was recorded as a reduction to share capital and was determined using the Black-Scholes option-pricing model using the following input values:

Input	**Value**
Exercise price	$0.10
Market price of common shares on grant date	$0.12
Volatility	338.00%
Risk-free rate	1.04%
Expected life	2 years
Dividend yield	0.00%

Warrants outstanding and exercisable as at December 31, 2015 are summarized as follows:

Exercise price	Number of Warrants Outstanding	Weighted Average Remaining Contractual Life
$		Years
0.10	2,570,600	0.3
0.20	50,000,000	3.3*
0.20	**52,570,600**	**3.2**

* Assuming the Acceleration Clause is not invoked.

c) Per share amounts

Basic and diluted loss per share are calculated as follows:

	Year Ended December 31	
$ - unless otherwise stated	**2015**	2014
Numerator		
Net loss and comprehensive loss	**(302,701)**	(623,969)
Denominator		
Basic and diluted weighted average number of shares outstanding	**55,696,470**	41,827,977
Basic and diluted loss per share	**(0.01)**	(0.01)

The calculation of diluted loss per share excludes the impact from the potential exercise of stock options and warrants as their inclusion is anti-dilutive in periods in which a net loss is incurred.

8. NON-REFUNDABLE SALES TAX

During the year ended December 31, 2015, the Corporation underwent an audit by the Canada Revenue Agency ("CRA") of its federal sales tax filings from 2012 – 2014. As a result of this audit, the Corporation repaid $54,498 in previously refunded sales taxes and related interest that had been incurred in connection with expenses that were deemed to be financial rather than operating in nature. The Corporation recorded a charge for the entire $54,498 in 2015.

9. COMMITMENTS & CONTINGENCIES

Under the terms of certain agreements and the by-laws of the Corporation, the Corporation indemnifies individuals who have acted at the request of the Corporation to be a director and/or officer to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. As at or subsequent to the end of the reporting period, the Corporation is unaware of any claims or actions that would materially affect its reported financial position or results from operations.

10. RELATED PARTY TRANSACTIONS

Management compensation

During the years ended December 31, 2015 and 2014, key members of management of the Corporation, which include its directors and officers, were compensated as follows:

	2015	2014
	$	$
Share-based compensation	**-**	139,313
Other compensation	**102,000**	99,500
Total compensation	**102,000**	238,813

Other compensation for the year ended December 31, 2015 in the table above includes $30,000 (2014 - $20,00) for consulting services provided by Maverick Projects Inc., a company controlled by Michael Atkinson, the Chief Executive Officer and President of the Corporation. The fees, reported as consulting fees, were incurred for management and business development services provided in the normal course of business, and have been measured at an exchange amount.

Also included in other compensation for the year ended December 31, 2015, is $72,000 (2014 - $79,500) paid or accrued to Earlston Management Corp. ("Earlston", formerly Ionic Management Corp.), an entity related by virtue of providing the services of the Chief Financial Officer and Corporate Secretary of the Corporation as well as other administrative services. These amounts are included in consulting fees in the consolidated statements of loss and comprehensive loss, and as at December 31, 2015, $6,000 (December 31, 2014 - $6,000) is included in accounts payable and accrued liabilities.

Other related party transactions

Excluded from the management compensation table, above is $22,500 paid to Earlston during the year ended December 31, 2014 in connection with services provided in connection with a private placement completed in the period, which has been charged as a reduction to share capital. Additionally, an employee of Earlston who is not a director or officer of the corporation was granted 75,000 options with a value of $6,966 during the year ended December 31, 2014.

The Corporation paid $257,064 and issued 2,143,100 compensatory Finders' Warrants with a fair value of $242,626 in connection with a private placement financing (note 7b) to Sprott Global Resource Investments Ltd. ("SGRIL") or Sprott Private Wealth LP, an affiliate of SGRIL. SGRIL has significant influence over the Corporation through its ownership of greater than 20% of the Corporation's common shares. These payments, which were made for finders' services and were on the same terms as those paid to other finders, have been recorded as a reduction in the value of share capital.

11. INCOME TAXES

The Corporation's income tax recovery (expense) reflects an effective tax rate that differs from the statutory tax rate. A reconciliation of this difference is as follows:

	2015	2014
	$	$
Expected income tax recovery from net loss at statutory tax rates (2015: 25%; 2014: 25%)	**75,675**	155,992
Less accounting expenses not deductible for income tax purposes	**(13,625)**	(36,570)
Plus taxable deductions not recorded for accounting purposes	**20,503**	99,919
Adjustments to enacted tax rates and prior year adjustments	**1,075,414**	683
Change in unrecognized deductible temporary differences and other	**(1,157,967)**	(220,024)
Income tax recovery	**-**	-

Deferred tax assets as at December 31, 2015 and 2014 have been calculated using substantively enacted tax rates of 27% (2014 – 25%) and comprise the following:

	December 31 2015	December 31 2014
	$	$
Deferred tax assets:		
Non-capital loss carry-forwards	**9,119,625**	8,458,944
Capital loss carry-forwards	**2,698,546**	2,498,654
Temporary differences in property, plant and equipment	**2,600,598**	2,530,230
Share issuance costs	**64,747**	80,455
Asset retirement obligations	**25,340**	62,500
Total deferred tax asset	**14,508,856**	13,630,783
Unrecognized deferred tax asset	**(14,508,856)**	(13,630,783)
Deferred tax asset	**-**	-

There is no objective evidence that the benefit from the Corporation's deferred tax assets will be realized, therefore the Corporation has not recognized any deferred tax asset at December 31, 2015. Should the Corporation demonstrate future profitability, these assets may be fully or partially recognized.

As at December 31, 2015, the Company has non-capital loss carry-forwards available to carry forward to future years totaling approximately $33.8 million (December 31, 2014 - $33.8 million).

The current balance expires as follows:

Year	Amount ($ millions)
2016	0.2
2017	-
2018	-
2019	-
2020	
2021 and beyond	32.6
Total	33.8

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments as at December 31, 2015 consist of cash, accounts receivable, restricted cash, and accounts payable and accrued liabilities. Due to the short term nature of these instruments, their carrying values approximate their fair values. The fair values of financial instruments are allocated between three levels of a fair value hierarchy, based on the degree of certainty around the fair values. The levels and the valuation techniques used to value financial instruments are as follows:

Level 1 - Quoted prices in active markets for identical assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Significant other observable inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Significant unobservable inputs

Significant reliance is placed on unobservable prices, supported by little or no market activity.

As at December 31, 2015, cash and cash equivalents and restricted cash held by the Corporation were considered to be Level 1 financial instruments.

Classification of financial instruments

All financial assets (except for cash and cash equivalents and restricted cash which are classified as fair value through profit and loss) are classified as loans and receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There are no financial assets on the consolidated statement of financial position that have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the years ended December 31, 2015 or 2014.

Financial instrument risk management

The nature of the Corporation's financial instruments and its operations expose the Corporation to market risks and credit risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors of the Corporation has the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

a) Market risks

Market risks include unfavorable movements in commodity prices, interest rates, and foreign exchange rates. As at December 31, 2015, the Corporation held no producing assets, held the majority of its net assets in cash, did not have any interest-bearing liabilities and has no commercial operations. Consequently, the Corporation has no significant exposure to market risks.

b) Credit risk

Credit risk is the risk of default on payment by counterparties to financial assets held by the Corporation. Virtually all of the Corporation's accounts receivables are concentrated with a limited number of customers and joint venture partners in the oil and gas industry. Management considers this concentration of credit risk to be acceptable, as customers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. The Corporation requires cash calls from its partners on major field projects in advance of commencement.

Accounts receivable as at December 31, 2015 was $13,726. The maximum exposure to credit risk is therefore represented by the carrying amount of accounts receivable on the consolidated statement of financial position. In the immediate future, it is not expected that the Corporation's exposure to credit risk will be significant.

c) Concentration risk

Concentration risk is the risk that a significant proportion of the Corporation's cash is held with one financial institution, exposing the Corporation to the risk that this institution may not have the liquidity to honour withdrawals or redemptions of the Corporation's funds. As at December 31, 2015, the largest balance of cash and cash equivalents held with any single institution was $4,504,879. Although the Corporation ensures the credit ratings of the financial institutions it deals with are high, the Corporation may seek to diversify holdings in the future.

13. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation defines capital as shareholders' equity and working capital. The Board of Directors does not establish quantitative return on capital criteria for management.

As at December 31, 2015, the Corporation's focus is to preserve the base of its cash available for redeployment in producing assets. There have been no changes in the Corporation's capital management strategies and processes during the year ended December 31, 2015.

The Corporation has no externally imposed capital requirements and there are no external financial covenants to which the Corporation must adhere.