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**MOUNT DAKOTA ENERGY CORP.  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JANUARY 31, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Mount Dakota Energy Corp.

We have audited the accompanying consolidated financial statements of Mount Dakota Energy Corp., which comprise the consolidated statements of financial position as at January 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the 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.

### *Auditors' 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 auditors' 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, these consolidated financial statements present fairly, in all material respects, the financial position of Mount Dakota Energy Corp. as at January 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Mount Dakota Energy Corp.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

May 26, 2017

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**MOUNT DAKOTA ENERGY CORP.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS AT JANUARY 31, 2017 AND 2016**(Expressed in Canadian Dollars)

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	Note	January 31, 2017 \$	January 31, 2016 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash		36,688	5,838
Accounts receivable		-	735
Amounts recoverable		5,235	7,591
Prepaid expenses		1,173	2,534
		<u>43,096</u>	<u>16,698</u>
DEPOSITS	4	72,429	59,017
PROPERTY AND EQUIPMENT	5	1	117,500
		<u>115,526</u>	<u>193,215</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities		195,800	250,172
Due to related parties	9(a,b,d,e)	1,376,239	1,255,519
Loans payable	9(c)	69,271	137,500
Decommissioning provisions	7	167,097	-
		<u>1,808,407</u>	<u>1,643,191</u>
DECOMMISSIONING PROVISIONS	7	-	159,837
		<u>1,808,407</u>	<u>1,803,028</u>
<b>SHAREHOLDERS' DEFICIENCY</b>			
SHARE CAPITAL	8	5,921,154	5,630,103
CONTRIBUTED SURPLUS		387,101	387,101
DEFICIT		(8,001,136)	(7,627,017)
		<u>(1,692,881)</u>	<u>(1,609,813)</u>
		<u>115,526</u>	<u>193,215</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)  
COMMITMENT (Note 15)

Approved and authorized for issue on behalf of the Board on May 26, 2017:

**"Steve Loo"**  
Steve Loo, Director**"John Kim"**  
John Kim, Director

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

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**MOUNT DAKOTA ENERGY CORP.****CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**(Expressed in Canadian Dollars)

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	Note	2017 \$	2016 \$
<b>PETROLEUM AND NATURAL GAS REVENUES</b>		1,944	53,101
<b>DIRECT COSTS</b>			
Production costs		5,649	85,306
<b>GROSS OPERATING PROFIT (LOSS)</b>		<b>(3,705)</b>	<b>(32,205)</b>
<b>EXPENSES</b>			
Accretion of decommissioning provisions	7	1,151	800
Consulting	9(e)	123,129	120,488
Depletion and depreciation	5	1,614	20,961
Interest and bank charges	9(c)	21,965	16,023
Legal and accounting	9(a)	45,255	53,966
Office and miscellaneous		5,318	13,554
Rent	9(b)	36,000	36,000
Transfer agent and filing fees		17,898	16,171
Travel		5,872	3,373
		258,202	281,336
<b>LOSS FROM OPERATIONS</b>		<b>(261,907)</b>	<b>(313,541)</b>
Write down of property and equipment	5	(121,994)	(97,103)
Write down of exploration and evaluation assets	6	-	(48,270)
Gain on debt settlement		9,270	-
Interest income		512	493
		(112,212)	(144,880)
<b>LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(374,119)</b>	<b>(458,421)</b>
<b>Net Loss Per Common Share – Basic and Diluted</b>		<b>(0.10)</b>	<b>(0.13)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>		<b>3,892,274</b>	<b>3,615,022</b>

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

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**MOUNT DAKOTA ENERGY CORP.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY  
FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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	Share Capital		Contributed		
	Number of	Amount	Surplus	Deficit	Total
	Shares	\$	\$	\$	\$
As at January 31, 2015	3,615,062	5,630,103	387,101	(7,168,596)	(1,151,392)
Loss for the year	-	-	-	(458,421)	(458,421)
As at January 31, 2016	3,615,062	5,630,103	387,101	(7,627,017)	(1,609,813)
Private placement	3,747,500	299,800	-	-	299,800
Share issuance costs	-	(8,749)	-	-	(8,749)
Loss for the year	-	-	-	(374,119)	(374,119)
As at January 31, 2017	7,362,562	5,921,154	387,101	(8,001,136)	(1,692,881)

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

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**MOUNT DAKOTA ENERGY CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**(Expressed in Canadian Dollars)

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	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the year	(374,119)	(458,421)
Items not affecting cash:		
Accretion of decommissioning provisions	1,151	800
Depletion and depreciation	1,614	20,961
Write down of property and equipment	121,994	97,103
Write down of exploration and evaluation assets	-	48,270
Interest on amounts due to related parties	21,441	15,000
Gain on debt settlement	(9,270)	-
Change in non-cash components of working capital:		
Accounts receivable	735	3,765
Prepaid expenses	1,361	(121)
Amounts recoverable	2,356	93
Accounts payable and accrued liabilities	(47,382)	165,130
Accounts payable to related parties	123,000	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(157,119)</b>	<b>(107,420)</b>
INVESTING ACTIVITIES		
Deposits	(13,412)	25,950
Acquisition of property and equipment	-	(25,000)
Expenditures on exploration and evaluation assets	-	(1,899)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(13,412)</b>	<b>(949)</b>
FINANCING ACTIVITIES		
Proceeds from share issuance	299,800	-
Share issuance costs	(8,749)	-
Proceeds from loans	62,816	10,000
Repayment of loans	(152,486)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>201,381</b>	<b>10,000</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>30,850</b>	<b>(98,369)</b>
CASH		
– BEGINNING OF YEAR	5,838	104,207
CASH		
– END OF YEAR	36,688	5,838

There were no non-cash financing or investing activities during the years ended January 31, 2017 and 2016.

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



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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Mount Dakota Energy Corp. (the "Company") is incorporated under the laws of British Columbia and is primarily engaged in the acquisition and development of petroleum and natural gas properties and the production of petroleum and natural gas through participation agreements in Canada.

The head office, principal address and records office of the Company are located at Suite 1601 – 1166 Alberni Street, Vancouver, British Columbia, V6E 3Z3. The Company's registered address is at the same address.

On January 22, 2016, the Company approved a share consolidation of one post-consolidated common share for each four pre-consolidated common shares of the Company, effective February 22, 2016. The pre-consolidated common shares totalling 14,460,087 have been reduced to 3,615,022 post-consolidated common shares. All share and per share amounts have been retroactively restated.

For the year ended January 31, 2017, the Company reported a net loss of \$374,119, negative cash flows from operating activities of \$157,119, an accumulated deficit of \$8,001,136 and a working capital deficiency of \$1,765,311. These factors raise significant doubt about the Company's ability to continue as a going concern. The continuance of the Company's operations is dependent on obtaining and maintaining sufficient debt or equity financing in order to realize the recoverability of the Company's investments in petroleum and natural gas properties, which is dependent upon the existence of economically recoverable reserves and market prices for petroleum and natural gas.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company is currently dependent on loans from companies controlled by directors and its other creditors to maintain its operations. Management is of the opinion that sufficient working capital will be obtained from operations or external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

**2. BASIS OF PREPARATION****[a] Statement of compliance**

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

The consolidated financial statements were authorized for issue by the Board of Directors on May 26, 2017.

**[b] Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **[a] Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned Canadian subsidiary, Simez Energy Resources Inc. (“Simez”). The Company acquired all of the outstanding common shares of Simez on May 11, 2007 for nominal consideration. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated upon consolidation.

#### **[b] Cash and cash equivalents**

Cash and cash equivalents include cash in bank accounts and cashable securities that on acquisition have a term to maturity of three months or less, or may be redeemed during this period. Cash and cash equivalents are highly liquid marketable securities and deposits, which are designated as fair value through profit or loss and are recorded at their fair values with changes recognized in net loss. Fair values are determined by reference to quoted market prices at the statement of financial position date. The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. As at January 31, 2017 and 2016, the Company had no cash equivalents.

#### **[c] Revenue recognition**

Revenue from the sale of petroleum and natural gas is recognized when the significant risks and rewards of ownership are transferred to the buyer, which is based on volumes delivered to customers at contractual delivery points and rates and collection is reasonably assured. The costs associated with the delivery, including operating and maintenance costs, and production-based royalty expenses, are recognized during the same period in which the related revenue is earned.

#### **[d] Use of estimates and judgments**

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Significant areas requiring the use of management estimates include the determination of the recovery of accounts receivable, amortization, depreciation, depletion and impairment of property and equipment and exploration and evaluation assets, petroleum and natural gas reserves, decommissioning provisions, and deferred income tax assets and liabilities. Actual results could differ from these estimates.

##### *Oil and Gas Accounting—Reserves Determination*

The process of estimating reserves is complex. It requires significant estimates based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable crude oil and natural gas reserves and related future net cash flows, the Company incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized oil and gas costs and for impairment purposes as described in Note 3(e).

##### *Property and Equipment*

The Company evaluates its long-lived assets (petroleum and natural gas properties) for impairment if indicators exist. Cash flow estimates for the impairment assessments require assumptions and estimates about the following primary elements—future prices, future operating and development costs, remaining recoverable reserves and discount rates. In assessing the carrying values of the unproved properties, the Company makes assumptions about its future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

[d] Use of estimates and judgments (continued)

*Decommissioning Provisions*

In estimating the future decommissioning provisions, the Company makes assumptions about activities that occur many years into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as asset removal and remediation techniques and costs are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at amounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political and safety environments.

*Depreciation and depletion*

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated reserves as determined annually by independent engineers and internal reserve evaluations. Changes in forward price estimates, production levels or results of future drilling may change the economic status of reserves and may result in reserves being revised.

*Share-based payments*

The fair value of share options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free interest rate. These estimates will impact the amount of share-based payments recognized. When stock options are exercised, the cash proceeds along with the amount previously recorded as share-based payment reserves are recorded as share capital.

*Income taxes*

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences and, accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

[e] Property and equipment

Property and equipment includes petroleum and natural gas development and production assets, including costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Property and equipment is measured at cost, less accumulated depletion and depreciation and accumulated impairment losses.

*Subsequent measurement*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

## [e] Property and equipment (continued)

## Depletion and depreciation

The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

## Equipment

Furniture and computer equipment are recorded at cost and depreciated using the straight-line method based on their estimated useful lives of 3 years, net of any estimated residual value. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## [f] Exploration and evaluation costs

Pre-license costs are recognized as an expense when incurred. Exploration and evaluation costs ("E&E"), including the costs of acquiring licenses, exploratory drilling and completion costs and directly attributable general and administrative costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. These costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability. Ongoing carrying costs including the costs of non-producing lease rentals are capitalized to exploration and evaluation assets.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or area is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property and equipment.

E&E assets are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amounts of reserve properties may exceed their recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****[g] Impairment**

The carrying amounts of the Company's property and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash generating unit level ("CGU"), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

**[h] Provisions****(i) Legal matters**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

**(ii) Decommissioning liabilities**

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

**[i] Functional currency and foreign currency translation**

The presentation currency and functional currency of the Company and its subsidiary is the Canadian dollar. Monetary assets and liabilities are translated at the exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical rates. The resulting exchange gains or losses are recognized in income.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)**[j] Income taxes**

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences between the carrying values and the tax bases of the related assets and liabilities. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred income tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilized.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit
- goodwill
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**[k] Financial instruments**

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and cash equivalents, accounts receivable, deposits, accounts payable, due to related parties, and loans payable. At initial recognition management has classified financial assets and liabilities as follows:

**(i) Financial assets**

The Company has classified its cash at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in profit or loss.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its deposits as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****[k] Financial instruments (continued)****ii) Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

**(iii) Financial liabilities**

The Company has classified its accounts payable and accrued liabilities, due to related parties, and loans payable as other financial liabilities. Accounts payable and accrued liabilities, due to related parties, and loans payable are recognized at the amount required to be paid less, when material, a discount to reduce the payable to fair value. Loan payable is measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

**[l] Share-based payments**

The Company grants options to purchase common shares to directors, officers, employees, consultants and certain service providers under its stock option plan. Share-based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is contributed surplus.

The fair value of employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on short term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

**[m] Comprehensive loss**

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, and foreign currency gains or losses related to self-sustaining operations. Comprehensive loss, components of other comprehensive income, and cumulative translation adjustments are presented in the consolidated statements of loss and comprehensive loss and the consolidated statements of changes in shareholder's deficiency.

**[n] Basic and diluted loss per share**

The Company computes basic loss per share by dividing losses available to common shareholders by the weighted average number of common shares outstanding during the period. For the years ended January 31, 2017 and 2016, the existence of stock options caused the calculation of diluted loss per share to be anti-dilutive. Accordingly, diluted loss per share is equal to basic loss per share.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

[o] Accounting standards issued but not yet effective

The following new accounting standards and interpretations are not yet effective and have not been applied in the preparation of these consolidated financial statements:

**IFRS 9, Financial Instruments** - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely. In December 2011, the IASB extended the mandatory effective date for IFRS 9 to on or after January 1, 2018 with early adoption permitted.

New accounting standards effective for the Company on February 1, 2018:

**IFRS 15, Revenue from Contracts with Customers** - IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*.

New accounting standards effective for the Company on February 1, 2019:

**IFRS 16, Leases** - IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company is currently assessing the impact of these standards on its consolidated financial statements.



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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**(Expressed in Canadian Dollars)

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**4. DEPOSITS**

The Company is required at certain times to remit deposits to the Alberta Energy Regulator. As at January 31, 2017, the Company has outstanding net deposits of \$72,429 (2016 - \$59,017).

**5. PROPERTY AND EQUIPMENT**

	Petroleum and natural gas properties	Furniture and computer equipment	Total
<b>Cost:</b>			
Balance, January 31, 2015	\$ 259,713	\$ 10,372	\$ 270,085
Additions	25,000	-	25,000
Change in estimated decommissioning costs	50,800	-	50,800
Write down	(97,103)	-	(97,103)
Balance, January 31, 2016	\$ 238,410	\$ 10,372	\$ 248,782
Additions	-	-	-
Change in estimated decommissioning costs	6,109	-	6,109
Write down	(121,994)	-	(121,994)
Balance, January 31, 2017	\$ 122,525	\$ 10,372	\$ 132,897
<b>Accumulated depletion and depreciation:</b>			
Balance, January 31, 2015	\$ (99,949)	\$ (10,372)	\$ (110,321)
Depletion and depreciation	(20,961)	-	(20,961)
Balance, January 31, 2016	\$ (120,910)	\$ (10,372)	\$ (131,282)
Depletion and depreciation	(1,614)	-	(1,614)
Balance, January 31, 2017	\$ (122,524)	\$ (10,372)	\$ (132,896)
<b>Net book value:</b>			
As at January 31, 2015	\$ 159,764	\$ -	\$ 159,764
As at January 31, 2016	\$ 117,500	\$ -	\$ 117,500
As at January 31, 2017	\$ 1	\$ -	\$ 1

The Company's petroleum and natural gas properties consist of the Alsike I well based in Alberta. The Company holds a 100% working interest in the Alsike I well.

Due to mechanical failure, the well is not producing. The Company assessed that it is economically more viable to abandon the well than repair it, and concluded to provide for an impairment charge to operations.

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**6. EXPLORATION AND EVALUATION ASSETS**

	<b>2017</b>	<b>2016</b>
	\$	\$
Balance, beginning of year	-	46,370
Additions	-	1,900
Impairment write off	-	(48,270)
Balance, end of year	-	-

During the year ended January 31, 2016, exploration and evaluation assets including the Alsike II petroleum and natural gas project located in Alberta were impaired and written off.

**7. DECOMMISSIONING PROVISIONS**

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the decommissioning provisions associated with the Company's petroleum and natural gas properties:

	<b>2017</b>	<b>2016</b>
	\$	\$
Balance, beginning of year	159,837	108,237
Accretion expense	1,151	800
Revision in estimates <sup>(1)</sup>	6,109	50,800
Balance, end of year	167,097	159,837

(1) Changes in the discount rates and the estimates of the timing costs of abandonment and reclamation are factors resulting in a change in estimate.

The estimated net present value of the obligation was calculated using a risk-free interest rate of 0.72% (2016 - 2.47%) based on Bank of Canada benchmark bond yields corresponding to the estimated time of reclamation and an inflation rate of 2% (2016 - 2%). Reclamation activities are expected to occur in 2018 and, accordingly, the Company has assessed their decommissioning provisions as current as at January 31, 2017 (2016 – non-current).

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**8. SHARE CAPITAL****(a) Authorized Share Capital**

Unlimited	Common shares without par value
100,000,000	Class A preference shares with a par value of \$10 per share
100,000,000	Class B preference shares with a par value of \$50 per share

**(b) Issued and Outstanding Share Capital**

Changes in common shares issued and outstanding are provided in the consolidated statements of changes in shareholders' deficiency.

On January 22, 2016, the Company consolidated its common shares on the basis of one post-consolidated common share for each four pre-consolidated common share of the Company.

On January 3, 2017, the Company closed a non-brokered private placement of 3,747,500 common shares at a price of \$0.08 per share for gross proceeds of \$299,800. Share issuance costs of \$8,749 were incurred and recorded as a reduction of share capital.

As at January 31, 2017, no Class A or B preference shares have been issued.

**(c) Stock Options**

The Company has a stock option plan (the "Plan") whereby it may grant stock options to its directors, officers, employees and consultants. The number of stock options available under the Plan shall not exceed 20% of the issued and outstanding common shares of the Company. The exercise price of each stock option granted generally equals the market price on the date of the grant. Stock options generally vest over an eighteen-month period from the date of grant and carry a maximum term of five years as determined by the Company's board of directors.

The Company did not grant any options during the years ended January 31, 2017 and 2016.

The Company did not have any stock options outstanding during the years ended January 31, 2017 and 2016.

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**9. RELATED PARTY TRANSACTIONS AND BALANCES**

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel and companies related to them were recorded as follows:

- (a) Accounting expense totalling \$10,800 (2016 - \$10,800) provided by a company controlled by a director of the Company has been paid or accrued during the year. As at January 31, 2017, \$Nil (2016 - \$3,780) has been included in due to related parties.
- (b) Rent totalling \$36,000 (2016 - \$36,000) for office premises provided by a company controlled by a director of the Company has been charged to operations. \$19,500 (2016 - \$18,000) is owing as at January 31, 2017 and has been included in due to related parties.
- (c) On March 31, 2014 the Company signed a loan agreement with a party related to one of its directors to borrow an aggregate of \$100,000 at a rate of 15% per annum, the principal of which has been repaid during the year ended January 31, 2017. A total amount of \$41,548 (2016- \$27,500) in interest has been accrued and is included in loans payable.

During the year ended January 31, 2017, the Company signed loan agreements with a party related to a director of the Company to borrow an additional \$50,000 (2016 - \$10,000) at a rate of 15% per annum, of which \$50,000 has been repaid during the year. Total accrued interest of \$7,393 has been included in loans payables relating to these loans.

Further, the Company received unsecured, non-interest bearing advances of \$5,016 from a director of the Company and \$7,800 from a relative of a director. \$2,486 has been repaid during the year and a total of \$10,330 is included in loans payable.

During the year ended January 31, 2017, the Company charged a total amount of \$21,441 (2016 - \$15,000) of accrued interest owing to related parties to operations.

As at January 31, 2017, the outstanding amount of total loan principal is \$20,330 (2016 - \$110,000) and total interest is \$48,941 (2016 - \$27,500).

- (d) On March 31, 2014, the Company entered into debt assignment agreements with parties related to a director for total amounts owing of \$1,116,739 which is included in due to related parties.
- (e) Consulting expenses totalling \$120,000 (2016 – \$120,000) provided by a director and a company controlled by a director of the Company have been accrued during the year. As at January 31, 2017, \$240,000 (2016 - \$117,000) has been included in due to related parties.

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**10. INCOME TAXES**

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	<b>2017</b>	<b>2016</b>
Net loss	\$ (374,119)	\$ (458,421)
Canadian statutory income tax rate	26.00%	25.00%
Expected income tax recovery	(97,000)	(115,000)
Non-deductible expenses and other	2,000	(32,000)
Share issuance costs	(2,000)	-
Adjustment to prior years provision	(30,000)	-
Change in unrecognized deferred income tax assets	127,000	147,000
Income tax recovery	\$ -	\$ -

Significant components of the Company's deferred tax assets are as follows:

	<b>2017</b>	<b>2016</b>
Non-capital losses carried forward	\$ 523,000	\$ 441,000
Capital losses carried forward	36,000	34,000
Resource pools and property and equipment	335,000	293,000
Other	2,000	1,000
Unrecognized deferred tax assets	\$ 896,000	\$ 769,000

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	<b>2017</b>	<b>Expiry Dates</b>	<b>2016</b>	<b>Expiry Dates</b>
<b>Temporary Differences</b>				
Resource pools and property and equipment	\$1,289,000	No expiry date	\$1,170,000	No expiry date
Share issuance costs	\$ 8,000	2037 to 2041	\$ 2,000	2036 to 2039
Allowable capital losses	\$ 138,000	No expiry date	\$ 138,000	No expiry date
Non-capital losses available for future periods	\$2,013,000	2027 to 2037	\$1,763,000	2027 to 2036

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

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**11. CAPITAL MANAGEMENT**

The Company defines capital as all components of shareholders' equity and amounts due to related parties. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can ultimately provide returns for shareholders and benefits for other stakeholders. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not subject to any externally imposed capital requirements. The Company did not change its capital management objectives during the year ended January 31, 2017.

**12. SEGMENTED INFORMATION**

The Company operates in one industry segment, namely acquisition and development of petroleum and natural gas properties and the production of petroleum and natural gas through participation agreements in Alberta, Canada.

**13. FINANCIAL INSTRUMENTS AND RISK****Financial Instruments**

As at January 31, 2017, the Company's financial instruments consist of cash, deposits, accounts payable and accrued liabilities, due to related parties, and loans payable.

The Company classifies its cash as FVTPL, its deposits as loans and receivables, and its accounts payable and accrued liabilities, due to related parties, and loans payable as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their current nature.

	2017	2016
	\$	\$
Fair value through profit or loss	36,688	5,838
Loans and receivables	72,429	59,017
Other financial liabilities	1,808,407	1,643,191

IFRS 7 *Financial Instruments – Disclosures*, establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. The financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

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**MOUNT DAKOTA ENERGY CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JANUARY 31, 2017 AND 2016**(Expressed in Canadian Dollars)

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**13. FINANCIAL INSTRUMENTS AND RISK (continued)**

The Company's financial assets and liabilities measured at fair value on a recurring basis as of January 31, 2017 are as follows:

	Balance at January 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	\$	\$	\$	\$
Financial Assets:				
Cash	36,688	36,688	—	—

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risk exposures is described below.

**Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. To minimize the credit risk related to cash, the Company places these instruments with high credit quality financial institutions. The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts. As at January 31, 2017, cash does not exceed the amounts covered by federal deposit insurance. The Company continuously monitors accounts receivable to minimize risk. As at January 31, 2017, the Company's maximum risk exposure to credit risk is the carrying value of accounts receivable of \$Nil.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining adequate cash and credit facilities with financial institutions and other parties. The Company continuously monitors and reviews both actual and forecasted cash flows. As at January 31, 2017, the Company had a working capital deficiency of \$1,765,311 (see Note 1). The carrying value of balances due within 12 months approximate their fair values due to their relatively short period to maturity.

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**13. FINANCIAL INSTRUMENTS AND RISK (continued)**

**Foreign Exchange Risk**

The Company's functional currency is the Canadian dollar. The Company is not exposed to significant currency risk.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. As at January 31, 2017, \$69,271 in loans and interest payable is owing and is subject to compound interest at a fixed rate of 15% per annum. The Company is therefore not exposed to significant interest rate risk on its financial instruments.

**Commodity Price Risk**

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of its commodities. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

**14. MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE**

During the year ended January 31, 2017, sales to one customer accounted for 100% of the Company's total petroleum and natural gas revenues with a total amount of \$1,944 (2016 - \$53,101). As at January 31, 2017, the Company does not consider itself to be economically dependent on this customer as transactions with this party can be easily replaced by transactions with other parties on similar terms and conditions.

**15. COMMITMENT**

On February 1, 2010 and March 6, 2010, the Company entered into surface lease agreements with a third party whereby the Company will pay annual consideration of \$4,000 for the Alsike I property and annual consideration of \$8,000 for the Alsike II property respectively for a total of five years. Total consideration paid at the end of five years will be \$60,000. As at January 31, 2017, the Company has made total payments of \$34,500 with \$25,500 outstanding to be paid during fiscal year 2018.

2018	\$ 25,500
	<u>\$ 25,500</u>