MOONCOR OIL & GAS CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)

For The Years Ended December 31, 2014 and 2013

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Web www.mhc-ca.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mooncor Oil & Gas Corp.:

We have audited the accompanying consolidated financial statements of Mooncor Oil & Gas Corp. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of (loss) income and comprehensive (loss) income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 audit. We conducted our audit 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 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 Mooncor Oil & Gas Corp. and its subsidiaries as at December 31, 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Mooncor Oil & Gas Corp. for the year ended December 31, 2013, were audited by other auditors who expressed an unmodified opinion on those statements on April 30, 2014.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had a cumulative deficit and negative working capital as at December 31, 2014. These conditions along with other matters set forth in Note 1 indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 30, 2015

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MOONCOR OIL & GAS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 322,648	$ 68,273
Investments (Note 4)	75,352	-
Sundry receivables	11,550	14,482
Prepaid expenses	4,994	5,539
Total current assets	414,544	88,294
Non-current assets:		
Property interests (Note 5)	515,692	505,000
Deposits (Note 13)	386,611	349,381
Total non-current assets	902,303	854,381
Total assets	$ 1,316,847	$ 942,675
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 10)	$ 737,722	$ 725,383
Long term liabilities:		
Reclamation and decommissioning obligation (Notes 9, 13)	84,223	72,050
Total liabilities	821,945	797,433
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	$ 20,175,578	$ 19,642,831
Contributed surplus (Note 6)	1,897,322	1,897,322
Warrants (Note 6)	452,315	41,100
Deficit	(22,030,313)	(21,436,011)
Total shareholders' equity	494,902	145,242
Total liabilities and shareholders' equity	$ 1,316,847	$ 942,675

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 5, 13)
Subsequent events (Note 16)

Approved by the Board of Dorectors

"Alan Myers"	Director
"Allen Lone"	Director

See accompanying notes to the consolidated financial statements.

MOONCOR OIL & GAS CORP.
CONSOLIDATED STATEMENTS OF (LOSS)/INCOME AND COMPREHENSIVE (LOSS)/INCOME
(Expressed in Canadian Dollars)

	Year ended December 31, 2014	Year ended December 31, 2013
Interest income	$ 7,228	$ 11,082
Total revenue	$ 7,228	$ 11,082
Expenses		
Professional fees and disbursements (Note 10)	$ 55,373	$ 121,007
Operational expenses	(8,716)	86,500
Clean up expenses	32,246	-
Office and general	128,776	28,937
Finance costs	-	45,334
Travel	2,319	2,246
Bad debt expense	-	43,995
Insurance	27,104	14,422
Total expenses	237,102	342,441
Loss before undernoted	**(229,874)**	**(331,359)**
Unrealized loss on investments (Note 4)	(241,648)	-
Realized loss on sale of investment (Note 4)	(122,780)	-
Gain on debt settlement (Note 8)	-	1,348,558
Net (loss)/income and comprehensive (loss)/income for the year	$ (594,302)	$ 1,017,199
Weighted average shares outstanding - basic and diluted (Note 12)	159,093,232	136,902,476
Net (loss)/income per share - basic and diluted (Note 12)	$ (0.00)	$ 0.01

See accompanying notes to the consolidated financial statements.

MOONCOR OIL & GAS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Contributed Surplus	Equity component of convertible debenture	Warrants	Deficit	Total Equity
Balance at December 31, 2012	121,953,956	$ 18,447,248	$ 1,705,263	$ 192,059	$ 1,055,680	$ (22,453,210)	$ (1,052,960)
Issue of units in settlement of debt	27,980,564	139,903	-	-	41,100	-	181,003
Reallocation of equity component of convertible debenture	-	-	192,059	(192,059)	-	-	-
Reallocation of expired warrants	-	1,055,680	-	-	(1,055,680)	-	-
Net income for the year	-	-	-	-	-	1,017,199	1,017,199
Balance at December 31, 2013	**149,934,520**	**$ 19,642,831**	**$ 1,897,322**	**$ -**	**$ 41,100**	**$ (21,436,011)**	**$ 145,242**
Issue of units for investment	10,000,000	280,124	-	-	219,876	-	500,000
Issue of units on private placement	7,601,665	259,487	-	-	196,613	-	456,100
Share issue costs	-	(6,864)	-	-	(5,274)	-	(12,138)
Net loss for the year	-	-	-	-	-	(594,302)	(594,302)
Balance at December 31, 2014	**167,536,185**	**$ 20,175,578**	**$ 1,897,322**	**$ -**	**$ 452,315**	**$ (22,030,313)**	**$ 494,902**

See accompanying notes to the consolidated financial statements.

MOONCOR OIL & GAS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows used in operating activities		
Net (loss)/income for the year	$ (594,302)	$ 1,017,199
Unrealized loss on investments	241,648	-
Realized loss on sale of investments	122,780	-
Gain on debt settlements	-	(1,348,558)
Interest accrued on convertible debenture	-	45,334
Accretion of recalmation and decommissioning obligation	1,481	1,523
	(228,393)	(284,502)
Changes in non-cash working capital balances		
Sundry receivables	2,932	120,900
Segregated cash	-	40,968
Prepaid expenses	545	15,198
Accounts payable and accrued liabilities	201	(29,071)
Cash flows (used in) operations	(224,715)	(136,507)
Cash flows provided by investing activities		
Proceeds on sale of investments (Note 4)	60,220	-
Deposits	(37,230)	-
Cash flows from investing activities	22,990	-
Cash flows provided by financing activities		
Private placements	424,100	-
Loans received	47,000	-
Repayment of loan	(15,000)	-
Cash flows from financing activities	456,100	-
Net increase/(decrease) in cash and cash equivalents	254,375	(136,507)
Cash and cash equivalents, beginning of year	68,273	204,780
Cash and cash equivalents, end of year	$ 322,648	$ 68,273
Supplemental Information		
Accrued share issue costs	$ 12,138	$ -
Investments acquired through the issuance of shares and warrants (Note 4)	$ 500,000	$ -
Units issued in settlement of debt	$ 32,000	$ 181,003

See accompanying notes to the consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Mooncor Oil & Gas Corp. (the “Company” or “Mooncor”) is continued under the Business Corporations Act (Ontario). The Company’s principal assets are oil and natural gas interests which are not yet in substantial commercial production. The Company is also in the process of exploring other opportunities. The Company is domiciled in the province of Ontario and its head office is located at 151 Randall Street, Suite 101, Oakville, Ontario, Canada.

The Company is a public company trading on the TSX Venture Exchange (“TSXV”) under the symbol “MOO”. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mooncor Energy Inc. ("Mooncor Energy"), an Alberta Corporation, and DRGN Energy Inc. ("DRGN"), an Ontario Corporation.

The Board of Directors approved these consolidated financial statements on April 30, 2015.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company has a working capital deficiency in the amount of $323,178 and has a deficit in the amount of $22,030,313 as at December 31, 2014. The Company is in the exploration stage and is subject to various risks and challenges including, but not limited to, dependence on key individuals, successful exploration and ability to secure adequate financing to meet the minimum capital required to successfully complete its projects, political risk relating to maintaining property licenses in good standing and continuing as a going concern. Management estimates that the funds available as at December 31, 2014 will not be sufficient to meet the Company’s potential capital and operating expenditures through December 31, 2015. The Company will have to raise additional funds to continue operations. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available on terms acceptable to the Company. Failure to meet its funding commitments may result in the loss of the Company’s exploration and evaluation interests.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration, development or operation of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty.

The challenges of securing requisite funding, operating with a working capital deficiency and expected future operating losses represent material uncertainties that cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") which includes International Financial Reporting Standards, International Accounting Standards ("IAS"), and interpretations of the International Financial reporting Interpretation Committee ("IFRIC"). These standards are collectively referred to as “IFRS”.

2. BASIS OF PRESENTATION (CONTINUED)

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Mooncor Energy and DRGN. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Taxes, income taxes and deferred taxes
  The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Any estimates for value added and withholding taxes have been included in accounts payable and accrued liabilities.

2. BASIS OF PRESENTATION (CONTINUED)

- Impairment of oil and gas property interests
  While assessing whether any indications of impairment exist for oil and gas property interests, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which oil and gas property interests are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's oil and gas property interests, costs to sell the properties and the appropriate discount rate. Reductions in oil price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable oil reserves or adverse current economics can result in a write-down of the carrying amounts of the Company's oil and gas property interests.

- Estimation of decommissioning and restoration costs and the timing of expenditure
  The cost estimates are updated annually during the life of an oil well to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the oil well. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Contingencies
  Refer to Note 13.

3. SIGNIFICANT ACCOUNTING POLICIES

The policies set out below are consistently applied to all years presented unless otherwise noted.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short term deposits with a term to maturity of three months or less. As at December 31, 2014 and 2013, the Company had no cash equivalents.

Oil and gas exploration and evaluation assets

Exploration and evaluation ("E&E") assets primarily relate to exploratory drilling, geological and geophysical activities, license acquisition and technical studies. Expenditure incurred on the acquisition of a license interest is initially capitalized on a license by license basis. All costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to income. Exploration expenditures incurred in the process of determining exploration targets is capitalized initially within E&E assets, and held undepleted, then subsequently allocated to property and equipment ("P&E") at such time when commercial reserves have been discovered.

Appraisal of the allocation to P&E is completed on a field–by-field basis. If commercial reserves are established and technical feasibility for extraction is demonstrated, the related capitalized E&E assets are transferred into a single field cost centre within P&E after testing for impairment (see below). Commercial reserves are proven oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future periods from known reservoirs and are considered technically feasible.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas exploration and evaluation assets (continued)
All directly attributable costs incurred after the technical feasibility and commercial viability of producing hydrocarbons have been demonstrated are capitalized to PP&E on a field-by-field basis only when the costs increase the future economic benefits embodied in the specific asset to which they relate. All other costs are recognized in profit or loss as incurred.

Net proceeds from any disposal of an E&E asset are initially credited against the previously capitalized costs. Any surplus proceeds are credited to the statement of (loss)/income.

Impairment
E&E assets are reviewed for impairment whenever facts or circumstances indicate that the cost capitalized to E&E assets may not be recoverable. If commercial reserves have not been established through the completion of E&E activities and there are no future plans for activity in that field, the E&E assets are determined to be impaired and the carrying amount is charged to income. Facts and circumstances that indicate impairment of E&E assets include but are not limited to:

(a) the period for which the Company has the right to explore a specific area has expired or will expire in the near future, and is not expected to be renewed.
(b) substantive expenditure on future E&E activities in a specific area is neither budgeted nor planned.
(c) E&E activities in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in a specific area.
(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount, by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognized in the statement of (loss)/income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized in the statement of (loss)/income immediately.

Derecognition
The carrying amount of an item of property and equipment is recognized on disposal, when no beneficial interest is retained, or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition is included in profit or loss when the item is derecognized and is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item. The date of disposal is the date when the Company is no longer subject to the risks of and is no longer the beneficiary of the rewards of ownership. Where the asset is derecognized, the date of disposal coincides with the date the revenue from the sale of the asset is recognized. On the disposition of an undivided interest in a property, where an economic benefit remains, the Company recognizes the farm out only on the receipt of consideration by reducing the carrying amount of the related property with any excess recognized in the statement of (loss)/income for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depletion

Depletion of petroleum and natural gas properties within each cash-generating unit (CGU) is recognized using the unit-of-production method based on the Company's share of total proved plus probable petroleum and natural gas reserves before royalties as determined by independent reserve engineers.

Provisions

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 risk specific to the liability.

Decommissioning liability

A decommissioning liability is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related asset. The amount recognized is management's estimated cost of decommissioning, discounted to its present value using a pre-tax risk free rate that reflects the time value of money. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the related asset unless the change arises from production. The unwinding of the discount on the decommissioning provision is included as a finance cost. Actual cost incurred upon settlement of the decommissioning liability are charged against the provision to the extent the provision was established.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment of non-financial assets

The carrying amounts of the Company's long-lived assets, other than E&E assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future discounted net cash flows expected to be generated by the asset.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recorded in profit and loss. Impairment losses recognized in prior periods are assessed at each reporting period for any indication 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, however, not to an amount higher than the carrying amount that would have been determined.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are in publicly-held companies which are traded on a recognized securities exchange and are initially recorded at cost, being the fair value at the time of acquisition. At the end of each financial reporting period, the investments are revalued to their fair values based on quoted closing prices at the statement of financial position date.

Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in the statement of (loss)/ income, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Capital stock, stock option and warrants

The Company's common shares, stock options and share purchase warrants are classified as equity instruments only to the extent that they do not meet the definition of a financial liability or financial asset. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds. Expired warrants are transferred to capital stock on expiry.

(Loss)/earnings per share

Basic (loss) earnings per share figures are calculated using the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per share figures are calculated based on the weighted average number of common shares outstanding adjusted for the effects of all dilutive potential shares including warrants, stock options, and convertible debentures. The effect on the diluted (loss) per share on the exercise of the warrants, conversion of convertible debentures, and stock options would be anti-dilutive.

Basic and diluted (loss) earnings per common share are calculated using the weighted average number of common shares outstanding during the period. The Company has reserved shares for issuance in accordance with applicable corporate and securities laws. Consideration received on the issuance of reserved shares will be credited to capital stock and will be valued at either the fair value of the consideration received or shares issued, whichever is more readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Company accounts for its share-based payments using the fair value method of accounting for stock options granted to directors, officers, employees, non-employees, consultants and service providers to the Company, using the Black-Scholes option-pricing model. Share-based payments are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus are recorded as an increase to capital stock. The amount recognized as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the stock options are fully vested.

Revenue recognition

Revenue from the sale of oil and petroleum products is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue is stated after deducting sales taxes, excise duties and similar levies.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The classification of financial assets and liabilities depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of (loss)/income.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

a. Fair value through profit or loss ("FVTPL") – This category comprises financial assets held for trading and assets designated upon initial recognition as FVTPL. Financial assets held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the near term. On initial recognition it is part of a portfolio of identifiable financial instruments managed together for which there is evidence of a recent pattern of short-term profit taking, or a derivative (excluding a derivative used for hedging). FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of (loss)/income.

b. Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of cash and cash equivalents and sundry receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

c. Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the Company's original effective interest rate. The impairment losses are recognized in the statement of (loss)/income.

d. Available-for-sale – Non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or FVTPL. Available-for-sale assets are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the statement of (loss)/income.

Financial liabilities
The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

a. FVTPL – This category comprises financial liabilities held for trading and liabilities designated upon initial recognition as FVTPL. FVTPL liabilities are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of (loss) income.

b. Other financial liabilities – All other financial liabilities except financial liabilities FVTPL. Other liabilities are recognized at amortized cost using the effective interest method.

Classification of financial instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy that reflects the significance of inputs in measuring fair value as the following:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 –inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's financial instruments consist of the following:

Financial Instrument	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Sundry receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Investments	FVTPL	Fair value

The fair value of cash and cash equivalents, sundry receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

As of December 31, 2014 and 2013, except for investments, none of the Company's financial instruments are recorded at fair value in the consolidated statements of financial position. Investments are classified as Level 1.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Future accounting changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted.

IFRS 11 – Joint Arrangements ("IFRS 11") was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future accounting changes (continued)

IFRS 13 – Fair Value Measurement ("IFRS 13") was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

Changes in accounting standards

The Company has adopted the following amendments effective January 1, 2014.

IAS 32 - Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

IAS 36 - Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

IFRIC 21 - Levies ("IFRIC 21") was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

There was no impact on the adoption of these amendments on the consolidated financial statements.

4. INVESTMENTS

On April 1, 2014, pursuant to the terms of the securities purchase agreement (i) Pinetree Capital Ltd. ("Pinetree") subscribed for 10,000,000 units of the Company at a price of $0.05 per unit comprised of one common share and one common share purchase warrant entitling Pinetree to acquire one common share of the Company at $0.10 per share for a period of 2 years from date of issuance, and (ii) the Company subscribed for 819,672 common shares of Pinetree at a price of $0.61 per share based on the quoted price of Pinetree shares on the purchase date. A director of the Company was an officer of Pinetree.

During the year ended December 31, 2014 the Company sold 300,000 Pinetree shares for proceeds of $60,220 resulting in a loss on disposal of the share of $122,780 which has been reflected in the consolidated statement of (loss)/income.

On December 31, 2014 the Company valued the remaining 519,672 Pinetree shares at the closing market price on December 31, 2014 resulting in a fair value of the Pinetree shares of $75,352. An unrealized loss of $241,648 has been reflected in the consolidated statement of (loss)/income.

5. PROPERTY INTERESTS

Oil and gas property interests as at December 31, 2014 consists of:

	Cost	Cumulative Depletion	Net
Balance, December 31, 2012 and 2013	**$ 519,832**	**$ (14,832)**	**$ 505,000**
Reclamation and decommissioning obligation	10,692	-	10,692
Balance, December 31, 2014	**$ 530,524**	**$ (14,832)**	**$ 515,692**

Oil and Natural Gas Interests (Lloydminster (Alberta))

In 2008, the Company acquired two suspended heavy oil wells and leases and related petroleum annd natural gas rights in the Lloydminster area of Alberta for cash proceeds of $400,000.

The Company's interest in the first lease is a 60% working interest subject to:

a. an obligation to pay a 60% share of the variable Crown royalties;
b. a 60% share of a 1% Gross Overriding Royalty ("GORR") payable to the party; and
c. a 3% GORR on the 60% share of production.

The Company's interest in the second lease is a 100% working interest declining to 60% after recoupment of the payout account of approximately $485,000 associated with the well on the lease. This lease is subject to:

a. a 60% share of the Crown royalty;
b. a 60% share (36% after payout) of a 1% GORR payable on oil production;
c. a 5% to 15% variable convertible GORR payable in respect of oil production;
d. a 15% convertible GORR payable in respect of gas production; and
e. a 3% GORR payable on the Company's 60% share of production. The 5% to 15% variable convertible GORR and 15% convertible GORR are convertible to a 40% working interest once payout has been achieved.

The leases include the right to complete one infill well on each of the leases. Upon completion and payout of any infill well, the Company will have a 60% working interest in the applicable well subject to the encumbrances on the applicable lease.

5. PROPERTY INTERESTS (CONTINUED)

During 2011, the Company entered an agreement to sell to Madeira Minerals Ltd. ("Madeira"), all of the Company's right, title and interest in the two wells. Madeira is a capital pool company, and the transaction is intended to constitute Madeira's qualifying transaction under Policy 2.4 of the TSXV. Madeira will acquire the leases by issuing an aggregate of 6,000,000 common shares of its capital stock to the Company at a price of $0.20 per share. On January 5, 2015, the agreement was amended to include additional cash consideration of $224,035. The transaction is subject to a number of conditions precedent which include completion of due diligence reviews by the parties, successful negotiation of a definitive purchase agreement (completed during 2012), completion of a concurrent financing by Madeira, and receipt of all required regulatory and TSXV approvals. The closing date per the amended agreement was March 31, 2015; however, the transaction has not been completed as of the date of these financial statements.

6. CAPITAL AND RESERVES

Capital Stock

At December 31, 2014 and 2013, the authorized share capital comprised an unlimited number of common shares with no par value.

In April 2014, the Company issued 10,000,000 common shares to Pinetree, as part of a securities purchase agreement between the two companies (see Note 4).

In October 2014, the Company issued a further 7,601,665 common shares as part of a non-brokered private placement financing.

	# of Common Shares		Amount
Balance, December 31, 2012	**121,953,956**	**$**	**18,447,248**
Issued on settlement of debt (a) (b)	27,980,564		139,903
Expired warrants	-		1,055,680
Balance, December 31, 2013	**149,934,520**		**19,642,831**
Issued for investment (c)	10,000,000		280,124
Issued for cash (d)	7,601,665		259,487
Share issue costs	-		(6,864)
Balance, December 31, 2014	**167,536,185**	**$**	**20,175,578**

Warrants

Details of warrant transactions for the years ended December 31, 2014 and 2013 are as follows:

	# of Warrants	Amount	Weighted Average Exercise Price
Balance, December 31, 2012	**14,834,548**	**$ 1,055,680**	**$ 0.24**
Expired warrants	(14,834,548)	(1,055,680)	0.24
Warrants issued (a)	11,448,492	41,100	0.10
Balance, December 31, 2013	**11,448,492**	**41,100**	**0.10**
Warrants issued April 1, 2014 (c)	10,000,000	219,876	0.10
Warrants issued October 15, 2014 (d)	7,601,665	196,613	0.10
Warrants issue costs	-	(5,274)	
Balance, December 31, 2014	**29,050,157**	**$ 452,315**	**$ 0.10**

6. CAPITAL AND RESERVES (CONTINUED)

a. On June 13, 2013, the Company issued 22,896,986 common shares and one half of a warrant exercisable for up to 11,448,492 common shares for five years at $0.10 per share in satisfaction of indebtedness of $1,144,849 which included amounts owed to the holders of secured convertible debentures. The fair value of the warrants were estimated on the date of issuance using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate – 1.63%; expected dividend yield – nil; expected stock price volatility – 155% (based on the Company's historical share price); a share price of $0.005 and expected warrant life of 5 years. Pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

b. During the year ended December 31, 2013, the Company issued 5,083,578 common shares valued at $25,418 in settlement of debt of $254,179 owed to arm's length service providers and vendors.

c. On April 1, 2014, the Company completed a securities purchase agreement with Pinetree. Pursuant to the terms of the securities purchase agreement, Pinetree subscribed for 10,000,000 units of the Company at a price of $0.05 per unit comprised of one common share of the Company and one common share purchase warrant entitling Pinetree to acquire one common share of the Company at $0.10 per share for a period of 2 years from date of issuance. The fair value of the warrants was estimated on the date of issuance using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate – 1.07%; expected dividend yield – nil; expected stock price volatility of 219% (based on the Company's historical share price); a share price of $0.028 and warrant life of 2 years. Pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

d. On October 15, 2014, the Company completed a non-brokered private placement financing. Pursuant to the terms of the financing agreement, the subscribers subscribed for 7,601,665 units of the Company at a price of $0.06 per unit comprised of one common share of the Company and one common share purchase warrant to acquire one common share of the Company at $0.10 per share for a period of 2 years from date of issuance. The fair value of the warrants was estimated on the date of issuance using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate – 0.91%; expected dividend yield – nil; expected stock price volatility of 204% (based on the Company's historical share price); a share price of $0.03 and warrant life of 2 years. Pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate. See note 10.

Issue date	# of warrants	Expiry date	Exercise price	Estimated fair value on issue date
13-Jun-13	11,448,492	13-Jun-18	$ 0.10	$ 41,100
1-Apr-14	10,000,000	1-Apr-16	0.10	217,785
1-Oct-14	7,601,665	1-Oct-16	0.10	193,430
	29,050,157		$ 0.10	$ 452,315

6. CAPITAL AND RESERVES (CONTINUED)

Stock options

Details of stock option transactions for the years ended December 31, 2014 and 2013 are as follows:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2012	**7,567,625**	**$**	**0.21**
Expired	(5,615,125)		0.19
Balance, December 31, 2013	**1,952,500**		**0.22**
Expired	(1,328,750)		0.24
Balance, December 31, 2014	**623,750**	**$**	**0.20**

The following table summarizes information about the options outstanding at December 31, 2014:

# of Options Outstanding and Exercisable		Exercise Price	Expiry Date	Remaining Contractual Life
270,000	$	0.25	19-Nov-20	5.89
75,000		0.20	08-Apr-21	6.27
67,500		0.23	04-May-21	6.35
211,250		0.14	29-Nov-21	6.92
623,750	**$**	**0.20**		**6.33**

7. CONVERTIBLE DEBENTURE

Details of warrant transactions for the years ended December 31, 2014 and 2013 are as follows:

Balance, December 31, 2012	**$**	**1,099,515**
Interest accrued		45,334
Amount settled by the issuance of common shares		(114,485)
Amount settled by issuance of warrants		(41,100)
Gain on settlement		(989,264)
Balance, December 31, 2013 and 2014	**$**	**-**

In 2007, the Company issued two separate convertible debentures having a total face value of $2,000,000 and maturing on March 28, 2010. The debentures are secured against all property and assets of the Company and bear interest at 10% per annum. Principal and interest was payable at maturity. On March 28, 2010, the Company negotiated an extension to the expiry of the debentures to June 11, 2010 with an additional extension to December 11, 2010 subject to the Company reducing the outstanding principal balance of both debentures to not less than $1,000,000. The outstanding principal of each debenture was convertible into units of the Company at $0.225 per unit until December 11, 2010. Each unit consisted of one common share and one-half of one warrant. Each whole warrant was exercisable for one common share at $0.225 per share until the maturity date of the debentures. In addition, the Company issued to each holder warrants (the "Compensation Warrants") exercisable for up to 500,000 common shares at $0.225 per share until the maturity date.

7. CONVERTIBLE DEBENTURE (CONTINUED)

On November 26, 2010, pursuant to a further extension agreement, the maturity date of the debentures was extended from December 11, 2010 to June 11, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the Compensation Warrants from December 11, 2010 to June 11, 2011. In April 2011, the Company negotiated an extension of the debentures from June 11, 2011 to December 31, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the Compensation Warrants from June 11, 2011 to December 31, 2011.

As a result of several amendments described above, the debentures matured on December 31, 2011 and each had $510,719 in principal outstanding. From January 2012 until June 13, 2013, the debentures were reflected as current liabilities due on demand accruing interest at 10% per annum.

On June 13, 2013, the Company issued 22,896,986 common shares and warrants exercisable for up to 11,448,492 common shares for five years at $0.10 per share in satisfaction of indebtedness of $1,144,849 which included amounts owed to the holders of secured convertible debentures.

8. GAIN ON DEBT SETTLEMENT

During the year ended December 31, 2013, the Company issued 22,896,986 common shares at a fair value of $139,903 and warrants exercisable for up to 11,448,492 common shares for five years at $0.10 per share in satisfaction of indebtedness of $1,144,849 owed to two holders of convertible debentures of the Company. The warrants were valued at $41,100 using an option pricing model, using the following assumptions: risk-free interest rate of 1.63%; expected dividend yield – NIL; expected stock price volatility determined using the Company's volatility based on historical price of 155 %; a share price of $0.005 and expected warrant life of 5 years.

During the year ended December 31, 2013, the Company also issued an additional 5,083,579 common shares at a fair value of $25,418 in satisfaction of indebtedness of $254,179 owed to service providers and vendors.

Gain on settlement of convertible debenture	$	989,264
Gain on settlement of other indebtedness		294,294
Recovery of bad debt		65,000
Total gain on settlement of debt	**$**	**1,348,558**

9. RECLAMATION AND DECOMMISSIONING OBLIGATION

The Company provides for the estimated future cost of reclamation and abandonment work on its oil and gas leases relating to the Lloydminster property. The reclamation and decommissioning obligation represents the present value of estimated future reclamation costs, which are expected to be incurred in 2024. The estimated undiscounted cash flows used to estimate the liability is $80,000. Assumptions, including an inflation rate of 1.26% and a discount rate of 1.79%, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary reclamation work required, which will reflect market conditions at the relevant time. Furthermore, the timing of reclamation is likely to depend on when the Company ceases operations on the Lloydminster property.

Balance, December 31, 2012	**$**	**70,527**
Accretion expense		1,523
Balance, December 31, 2013	**$**	**72,050**
Decommissioning obligation		10,692
Accretion expense		1,481
Balance, December 31, 2014	**$**	**84,223**

10. RELATED PARTY TRANSACTIONS

Related parties include Board of Directors, close family members, key management personnel, enterprises and others who exercise significant influence over the reporting entity. All amounts owing to related parties are unsecured, non-interest bearing and due on demand.

a. Officers and directors and a corporation controlled by an officer and director of the Company subscribed for 3,001,666 units in the October 2014 private placement for gross proceeds of $180,100.

b. See Note 4.

c. Included in professional fees for the year ended December 31, 2014 are $59,275 (2013 - $2,844) of which $12,138 relates to share issue costs for legal fees and disbursements owing to a law firm in which an officer, Robbie Grossman, is a partner. Included in accounts payable and accrued liabilities on December 31, 2014 are $45,478 (December 31, 2013 - $1,873) owing to this law firm.

d. Included in accounts payable and accrued liabilities at December 31, 2014 and 2013 is $28,330 for legal fees and disbursements owing to a law firm (Garfinkle Biderman LLP) of which an officer of the Company, Robbie Grossman, was a former partner.

e. During the year ended December 31, 2014, $nil (2013 - $6,750) is included in professional fees paid to a former director and officer (Nick Tsimidis) or to related companies for CFO services pursuant to a consulting agreement. At December 31, 2014 and 2013, $39,818 is included in accounts payable and accrued liabilities, relating to these services.

f. In 2013, $2,500 of debt owing to Darell Brown, the former CEO was settled through the issuance of 50,000 shares at a fair value of $250. At December 31, 2014 and 2013, the remaining debt of $10,625 is included in accounts payable and accrued liabilities.

g. Pursuant to a management agreement between the Company, Richard Cohen and a company controlled by this individual, the Company is obligated to pay the company controlled by this individual $169,092 related to consulting services rendered in 2011. At December 31, 2014 and 2013, this amount is included in accounts payable and accrued liabilities.

h. At December 31, 2014, $75,000 (2013 - $nil) has been included in accounts payable and accrued liabilities for remuneration of the CEO.

i. In 2013, two of the directors advanced $2,000 each to the Company and these amounts have been included in accounts payable and accrued liabilities at December 31, 2014 and 2013.

j. At December 31, 2014, the Company paid $9,150 (2013 - $5,628) of rent to Fox-Tek, a company with common management.

k. In 2014, the Company's CEO loaned $47,000 to the Company, this amount is due on demand, unsecured and non-interest bearing. $15,000 was repaid during the year and $32,000 was applied towards his share subscription of the private placement that closed on October 15, 2014.

10. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

The compensation of the directors and other key management of the Company are included in the summary table below. Key management is those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company.

	2014	2013
Short-term compensation (Notes 10e & h)	$ 75,000	$ 6,750

These transactions are in the normal course of operations.

11. INCOME TAXES

a) Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 25.75% (2013 - 26.5%) were as follows:

	2014 $	2013 $
Loss before income taxes	594,302	1,017,199
Expected income tax recovery based on statutory rate	153,000	270,000
Adjustment to expected income tax benefit:		
Non-deductible expenses and other	791,000	366,000
Change in tax rates	(162,000)	-
Change in deferred tax assets not recognized	(782,000)	(636,000)
Deferred income tax	-	-

b) Deferred income taxes

	2014 $	2013 $
Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Non-capital loss carry-forwards	17,573,000	15,161,000
Capital loss carry-forwards	2,202,000	-
Investments	242,000	-
Other temporary differences	74,000	215,000
Total	20,091,000	15,376,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

The non-capital losses expire from 2026 to 2034. The temporary differences do not expire under current legislation.

12. (LOSS) INCOME PER SHARE

Basic (loss)/income per share figures are calculated using the weighted average number of common shares outstanding during the year.

The effect on the diluted (loss)/income per share for the periods presented of issued and outstanding warrants and stock options is anti-dilutive.

13. COMMITMENTS & CONTINGENCIES

Gross overriding royalties

In addition to the gross overriding royalty ("GORR") agreements entered into in connection with the various oil and gas projects undertaken as disclosed in Note 5, the Company has entered into the following GORR agreement:

Database

As part of the purchase of a database of technical information, the Company entered into a GORR agreement with the vendor. Pursuant to the agreement, the Company has committed to pay royalties equal to 3% on all production from the lands included in the database. To date, there has been no production on these lands.

Abandonment and reclamation costs

The Company is liable to undertake reclamation and abandonment work on its leases. The Company has lodged deposits of $386,611 (2013 - $349,381) with the Alberta Energy Resource Conservation Board as required by legislation. A provision of $84,223 has been recorded at December 31, 2014 (December 31, 2013 - $72,050) with respect to estimated reclamation and decommissioning obligations.

Legal claims

In the ordinary course of business activities, the Company is a party in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material effect on the consolidated financial position of the Company.

14. CAPITAL DISCLOSURES

The Company’s objectives when managing capital are as follows:

a. To safeguard the Company’s ability to continue as a going concern.
b. To raise sufficient capital to finance its exploration and development activities on its mineral exploration properties.
c. To raise sufficient capital to meet its general and administrative expenditures.

The Company considers its capital to be equity, which comprises capital stock, contributed surplus, warrants and deficit, which at December 31, 2014, totaled $494,902 (2013 - $145,242).

The Company manages its capital structure and makes adjustments to it based on general economic conditions, short term working capital requirements, and planned exploration and development. The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by management and updated for changes in the budgets’ underlying assumptions as necessary.

There were no changes in the Company’s approach to managing capital during the year.

14. CAPITAL DISCLOSURES (CONTINUED)

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2014, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

15. RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions in relation to the Company's activities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant price, credit, liquidity, or cash flow risks arising from the financial instruments. There were no changes to the Company's risks, objectives, policies and procedures from the previous year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, deposits and sundry receivables. Cash and cash equivalents and deposits are held at reputable Canadian financial institutions.

The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote.

The carrying amount of sundry receivables and cash and cash equivalents represents the maximum credit exposure.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company maintains a majority of its surplus funds in interest bearing accounts with Canadian financial institutions, which pay interest at a floating rate.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses which may damage the Company's reputation.

The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

At December 31, 2014, the Company had a cash balance of $322,648 (2013 – $68,273) to settle current liabilities of $737,722 (2013 - $725,383). The Company has a working capital deficiency of $323,178 at December 31, 2014 (2013 - $637,089).

15. RISK MANAGEMENT (CONTINUED)

Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations will be significantly affected by changes in the market prices for commodities. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors may in turn be influenced by changes in international investment patterns, monetary systems and political developments.

16. SUBSEQUENT EVENTS

Acquisition of oil and gas leases in Montana, USA

In January 2015, the Company acquired oil and gas leases in the Pondera and Teton Counties in Northwestern Montana through the acquisition of Primary Petroleum Company USA, Inc.

The Company will pay the vendor a 1% gross overriding royalty and assume its working interest share of the reclamation costs relating to the previously drilled wells and the ongoing lease payments.