Abenteuer Resources Corp.

Consolidated Financial Statements

Year Ended December 31, 2013

(Expressed in Canadian Dollars)

April 29, 2014

Independent Auditor's Report

To the Shareholders of Abenteuer Resources Corp.

We have audited the accompanying consolidated financial statements of Abenteuer Resources Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Abenteuer Resources Corp. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

PricewaterhouseCoopers LLP
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Abenteuer Resources Corp.

Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		$ 50,129	$ 130,516
Short-term investments	5	858,907	1,004,542
Prepaids		5,557	11,482
Accounts receivable and other receivables	6	34,388	60,197
		948,981	1,206,737
Non-current assets			
Reclamation and other deposits	7	77,424	77,424
Oil properties	8	465,866	865,080
		543,290	942,504
		$ 1,492,271	$ 2,149,241
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 99,443	$ 65,123
Non-current liabilities			
Decommissioning provisions	10	123,190	143,036
		222,633	208,159
Shareholders' equity			
Share capital	12	2,819,649	2,819,649
Reserves		322,304	322,304
Deficit		(1,872,315)	(1,200,871)
		1,269,638	1,941,082
		$ 1,492,271	$ 2,149,241

Subsequent Events (Note 19)

Approved by the Board of Directors:

"David Parry"

David Parry - Director

"J. Lewis Dillman"

J. Lewis Dillman - Director

Abenteuer Resources Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Notes	Year Ended December 31, 2013	Year Ended December 31, 2012
REVENUE			
Oil sales		$ 406,508	$ 475,601
Royalty income		5,611	-
Royalty expense and freehold mineral tax		(56,249)	(69,148)
		355,870	406,453
EXPENSES			
Operating expenses	15	282,172	263,681
General and administrative	15	454,348	356,789
		736,520	620,470
OTHER ITEMS			
Impairment of oil properties	8	(302,429)	-
Recovery of royalty expense		-	28,020
Gain on farm-out		-	25,000
Interest income		11,635	10,330
		(290,794)	63,350
Net loss and comprehensive loss for the year	16	$ (671,444)	$ (150,667)
Basic and diluted loss per common share		$ (0.04)	$ (0.01)
Weighted average common shares outstanding		18,278,266	18,278,266

Abenteuer Resources Corp.
Consolidated Statements of Changes in Shareholders` Equity
(Expressed in Canadian Dollars)

		Share capital		Reserves				
	Notes	Number of Shares	Amount	Option	Warrant	Total	Deficit	Total
Balance at January 1, 2012		**18,278,266**	**2,819,649**	**$ 295,774**	**$ 26,530**	**$ 322,304**	**$ (1,050,204)**	**$ 2,091,749**
Loss for the year		-	-	-	-	-	(150,667)	(150,667)
Balance at December 31, 2012		**18,278,266**	**2,819,649**	**295,774**	**26,530**	**322,304**	**(1,200,871)**	**1,941,082**
Loss for the year		-	-	-	-	-	(671,444)	(671,444)
Balance at December 31, 2013		**18,278,266**	**$ 2,819,649**	**$ 295,774**	**$ 26,530**	**$ 322,304**	**$ (1,872,315)**	**$ 1,269,638**

See accompanying notes to the consolidated financial statements

Abenteuer Resources Corp.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2013	Year Ended December 31, 2012
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the year	$ (671,444)	$ (150,667)
Items not affecting cash:		
Depletion	85,485	100,926
Accretion	2,575	2,821
Impairment of oil properties	302,429	-
Other income	-	1,887
Changes in non-cash working capital items:		
Decrease in receivables	25,809	11,310
Decrease (increase) in prepaids	5,925	(10,523)
Increase in accounts payable	34,320	9,856
	(214,901)	(34,390)
INVESTING ACTIVITIES		
Redemption of short-term investment	145,635	-
Oil and gas property expenditures	(11,121)	-
	134,514	-
Change in cash and cash equivalents	(80,387)	(34,390)
Cash and cash equivalents - beginning	130,516	164,906
Cash and cash equivalents - end	$ 50,129	$ 130,516

See accompanying notes to the consolidated financial statements

1. Nature and continuance of operations

Abenteuer Resource Corp. (the “Company”) was incorporated under the laws of the province of Alberta, Canada and was continued into the province of British Columbia in 2010. The Company’s registered office is Suite 1578 – 609 Granville Street, Vancouver, BC, Canada. The Company is engaged primarily in the exploration for, and the production of, petroleum reserves in Western Canada.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

2. Basis of preparation

The consolidated financial statements of the Company for the years ended December 31, 2013 and 2012 have been prepared in accordance with the International Financial Reporting Standards and Interpretations (collectively, “IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved for issue by the board of directors effective April 29, 2014.

These financial statements have been prepared on the historical cost basis. The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ from those estimates.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities.

Foreign currency translation

The functional currency of each of the Company’s entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiary.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than an entity’s functional currency are recognized in the consolidated statement of loss and comprehensive loss in “other items”.

Joint arrangements

The Company conducts many of its petroleum activities through jointly controlled operations and the financial statements reflect only the Company’s proportionate interest in such activities.

3. Summary of significant accounting policies (continued)

Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 percent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associate risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

Oil properties

Oil properties are stated at cost, less accumulated depletion and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and decommissioning costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Where commercial production in an area of interest has commenced, oil properties are depleted on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with future development expenditures to develop the proved reserves. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Revenue

Revenue from the sale of oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party, sales prices and costs can be reasonably measured, and it is probable that future economic benefits will flow to the entity. For crude oil, this is generally at the time the product reaches a trucking terminal or pipeline. Revenue is measured net of discounts.

Share based payments

The Company has a stock option plan. Share based payments are measured at the fair value of the instruments issued and recognized immediately upon vesting. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the options granted shall be based on the number of options that eventually vest.

Loss per share

Basic net loss per share is calculated by dividing the net loss of the Company by the weighted average number of common shares outstanding during the year. Diluted net loss per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

3. Summary of significant accounting policies (continued)

Financial instruments

The Company recognizes financial assets and liabilities on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All financial assets recognized on the Company's statement of financial position are classified as loans or receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognized at fair value and subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

All financial liabilities recognized on the Company's statement of financial position are initially recognized at fair value and subsequently measured at amortized cost.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired.

Cash and cash equivalents

Cash and cash equivalents includes demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

Short term investments

Short-term investments are investments which are current in nature, with an original term to maturity greater than three months but less than one year.

Impairment of long lived assets

The carrying amount of the Company's assets is reviewed for impairment when indicators of such impairment exist. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. If an impairment loss exists, then it is recorded as an expense immediately.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss cannot be reversed to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

3. Summary of significant accounting policies (continued)

Income taxes

Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the jurisdictions where the Company operates and generates taxable income. The tax rate used is the rate that is enacted or substantively enacted.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Decommissioning provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of well sites is capitalized to oil and gas properties along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other oil and gas properties.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to oil and gas properties with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The restoration provisions are accreted to full value over time through charges to operating expenses on the consolidated statement of loss and comprehensive loss.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred.

3. Summary of significant accounting policies (continued)

New accounting standards adopted

(i) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under previous IFRS, consolidation was required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

(ii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under previous IFRS, entities had the choice to proportionately consolidate or equity account for interests in jointly controlled entities. The adoption of this standard had no effect on the Company's financial statements.

(iii) IFRS 12, Disclosure of Interests in Other Entities, outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flow. The adoption of this standard had no effect on the Company's financial statements.

(iv) IFRS 13, Fair value measurements, provides as single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

(v) IFRS 7, Financial Instruments: Disclosures, was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no impact on the Company's financial statements.

(vi) The Company has adopted the amendments to IAS 1, Presentation of Financial Statements, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit and loss and those that will not be reclassified. These changes did not result in any adjustments to net and other comprehensive income or loss.

Accounting standards issued by not yet effective

The IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), amendments to IAS 36, Impairment of Assets, and IFRIC 21, Accounting for Levies imposed by Governments.

3. Summary of significant accounting policies (continued)

The following is a brief summary of the new standards:

IFRS 9 – Financial Instruments

IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It 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. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The effective date of IFRS 9 was deferred in November 2013, a new effective date has not yet been published. The Company has not yet completed an assessment of the impact of adopting IFRS 9.

IAS 36 – Impairment of Assets

In May 2013, the IASB issued amendments to IAS 36, *Impairment of Ass*ets, which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Company on January 1, 2014 and the adoption will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

IFRIC 21 – Accounting for Levies imposed by Governments

IFRIC 21, Accounting for Levies imposed by Governments, clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. IFRIC 21 is effective for the Company beginning on January 1, 2014. The Company is currently assessing the impact of this guidance.

4. Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The following areas required a significant degree of estimation and judgment:

4. Significant accounting judgments, estimates and assumptions (continued)

Reserve base

The oil and gas properties are depreciated on a unit of production ("UOP") basis at a rate calculated by reference to proved reserves determined in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and incorporate the estimated future cost of developing and extracting those reserves. Proved reserves are determined using estimates of oil in place, recovery factors and future prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs. Proved reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable.

Depletion of oil assets

Oil properties are depleted using the UOP method over proved reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves (Note 8).

Determination of cash generating units

Oil properties are grouped into cash generating units for purposes of impairment testing. Management has evaluated the oil properties of the Company, and grouped the properties into cash generating units on the basis of their ability to generate independent cash inflows, similar reserve characteristics, geographical location, and shared infrastructure.

Impairment indicators and calculation of impairment

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of oil properties and equipment are not recoverable, or impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. When management judges that circumstances clearly indicate impairment, property and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs.

Decommissioning provisions

Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results (Note 10).

(Expressed in Canadian dollars)

5. Short-term investments

The Company has $855,000 (December 31, 2012 - $1,000,000) invested in a variable rate GIC, earning interest based on the Bank of Montreal's prime rate less 1.8%, with a maturity date of August 14, 2014. As at December 31, 2013, the Company had accrued interest on the investment of $3,907 (December 31, 2012 - $4,542).

6. Accounts receivable and other receivables

	2013 ($)	2012 ($)
Value-added tax receivable	$ 4,960	$ 8,864
Trade receivables	29,428	51,333
	$ 34,388	$ 60,197

7. Reclamation and other deposits

	2013 ($)	2012 ($)
Reclamation bond	$ 32,506	$ 32,506
Office rent deposit	44,918	44,918
	$ 77,424	$ 77,424

The Company has a reclamation bond having a value of $32,506 ($20,000 Well and $12,506 Battery) that is held by the Saskatchewan Ministry of Industry and Resources in the event that well King 03-27-004-07 W2 becomes orphaned.

8. Oil properties

The Company has working interests in six wells in south east Saskatchewan at Kingsford. Three of these are horizontal wells (HZ).

Well #	Well Identifier	Working Interest (%)	Net Revenue Interest (%)
1	Kingsford 141/08-13-004-07 W2M	45.90	39.02
2	Kingsford 91/06 HZ 1D08-13-1D06-18-04-06 W2M	13.00	13.00
3	Kingsford 92/07 HZ 2C5-18-1D7-13-04-07 W2M	45.90	39.02
4	Kingsford 4D8-14/2A11-13-004-07 W2	10.50	8.93
5	Kingsford 03-27-004-07 W2	100.00	84.50
6	Steelman 191/07-18-004-06W2	13.00	13.00

During the year ended December 31, 2011, the Company executed a farm-out agreement with Admiralty Oils Ltd. ("Admiralty"), an arm's length private Saskatchewan oil company, to drill at least one test well on Section 27 of the West Kingsford pool in southeastern Saskatchewan.

8. Oil properties (continued)

Under the terms of the agreement, Admiralty could earn a 70-per-cent working interest in the well and certain farm-out lands by incurring 100 per cent of the drilling and well-completion costs, up to equipping and tie-in. The Company retained the option to convert its 30-per-cent working interest into a 10-per-cent gross overriding royalty (“GORR”). Admiralty, as operator, was required to spud the first well prior to October 20, 2012. This deadline was not met and the Company granted Admiralty a six month extension in exchange for $25,000. In October 2013, Admiralty completed a vertical well, and the Company elected to receive a 10% GORR.

As of December 31, 2013, the Company completed an assessment as to whether any impairment indicators existed in accordance with IAS 36, Impairment of Assets. As a result of this assessment, it was concluded that an impairment indicator does exist due to lower estimated reserve recoveries forecasted for Wells 1 and 3. In conjunction with its accounting policy on Impairment of long lived assets, the Company has recognized an impairment of $302,429 in respect of Wells 1 and 3.

The recoverable amount was determined using a fair value less costs of disposal methodology, with the expected cash flow based on 2013 year-end reserves information and a post-tax discount rate of 10% (Level 3 inputs). All of these assumptions are highly subjective and subject to change over time all of which could have a significant bearing on the carrying value of Wells 1 and 3.

(Expressed in Canadian dollars)

8. **Oil properties** (continued)

2013	**Well #1 ($)**	**Well #2 ($)**	**Well #3 ($)**	**Well #4 ($)**	**Well #5 ($)**	**Well #6 ($)**	**Total ($)**
Cost:							
At December 31, 2012	$ 401,122	$ 83,134	$ 741,680	$ 350,469	$ 526,956	-	$ 2,103,361
Additions	-	-	-	-	-	11,121	11,121
Decommissioning change in estimate	(8,648)	(355)	(10,216)	(2,051)	(5,667)	4,516	(22,421)
At December 31, 2013	392,474	82,779	731,464	348,418	521,289	15,637	2,092,061
Depletion:							
At December 31, 2012	(242,615)	(49,104)	(448,758)	(208,112)	(289,692)	-	(1,238,281)
Charge for the year	(7,422)	(5,426)	(15,484)	(17,350)	(39,803)	-	(85,485)
At December 31, 2013	(250,037)	(54,530)	(464,242)	(225,462)	(329,495)	-	(1,323,766)
Impairment:							
At December 31, 2012	-	-	-	-	-	-	-
Charge for the year	(117,521)	-	(184,908)	-	-	-	(302,429)
At December 31, 2013	(117,521)	-	(184,908)	-	-	-	(302,429)
Net book value:							
At December 31, 2012	158,507	34,030	292,922	142,357	237,264	-	865,080
At December 31, 2013	**$ 24,916**	**$ 28,249**	**$ 82,314**	**$ 122,956**	**$ 191,794**	**15,637**	**$ 465,866**

2012	**Well #1 ($)**	**Well #2 ($)**	**Well #3 ($)**	**Well #4 ($)**	**Well #5 ($)**	**Well #6 ($)**	**Total ($)**
Cost:							
At December 31, 2011	$ 401,275	$ 83,167	$ 741,962	$ 350,606	$ 527,188	-	$ 2,104,198
Decommissioning change in estimate	(153)	(33)	(282)	(137)	(232)	-	(837)
At December 31, 2012	401,122	83,134	741,680	350,469	526,956	-	2,103,361
Depletion:							
At December 31, 2011	(224,893)	(45,299)	(416,007)	(192,195)	(258,961)	-	(1,137,355)
Charge for the year	(17,722)	(3,805)	(32,751)	(15,917)	(30,731)	-	(100,926)
At December 31, 2012	(242,615)	(49,104)	(448,758)	(208,112)	(289,692)	-	(1,238,281)
Net book value:							
At December 31, 2011	176,382	37,868	325,955	158,411	268,227	-	966,843
At December 31, 2012	**$ 158,507**	**$ 34,030**	**$ 292,922**	**$ 142,357**	**$ 237,264**	**-**	**$ 865,080**

(Expressed in Canadian dollars)

9. Accounts payables and accrued liabilities

	2013 ($)	2012 ($)
Trade payables	76,443	27,445
Accrued liabilities	23,000	37,678
	99,443	65,123

10. Decommissioning provisions

	2013 ($)	2012 ($)
Balance, beginning	143,036	141,052
Change in estimate	(22,421)	(837)
Accretion expense	2,575	2,821
Balance, end	123,190	143,036

The Company's provision for restoration and environmental obligations consists of costs accrued based on the current best estimate of reclamation activities that will be required at the completion of petroleum extraction activities. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by a third party specialist. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Company has calculated the fair value of the decommissioning provision using a weighted average risk free discount rate of 2.0% (December 31, 2012 – 1.8%). The estimated total future undiscounted cash flows to settle the decommissioning provisions are $157,467 (December 31, 2012 - $195,620) and are expected to be incurred over a period of approximately 20 years.

11. Related party transactions

The Company incurred the following transactions with directors and companies that are controlled by directors of the Company.

	2013 ($)	2012 ($)
Director fees	24,000	24,000
Mineral royalties paid to a director of the Company	3,082	2,698
	27,082	26,698

***Key management compensation*[1]**

	2013 ($)	2012 ($)
Management fees paid to the CEO	24,000	29,500
Professional fees paid to the CFO	48,000	81,000
	72,000	110,500

[1] Key management includes the CEO and the CFO.

As at December 31, 2013, a total of $174 (2012 - $228) was owing to a director of the Company for mineral royalties on the #4 well.

(Expressed in Canadian dollars)

12. Share capital

Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preference shares without par value.

Issued share capital

There are no preferred shares issued or outstanding. There were no changes to the number of shares issued or outstanding during year ended December 31, 2013. The common shares issued and outstanding are as follows:

	Number of Shares	Amount ($)
Balance as at December 31, 2013 and 2012	18,278,266	2,819,649

Stock options

The Company has adopted a fixed incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a variable period from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares.

Options may be exercised no later than 90 days following cessation of the optionee's position with the Company. Options granted during 2011 vested fully on the grant date. There were no options granted during the year ended December 31, 2013.

The following table summarizes the options outstanding as at December 31, 2013 and 2012:

Number of Options	Exercise Price	Expiry Date
1,150,000	$0.20	November 24, 2016

There were no changes in options during the years ended December 31, 2013 and 2012.

13. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

13. Financial risk management (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by two banks there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its accounts receivable and other receivables. This risk is minimal as receivables consist primarily of petroleum sales to long standing customers with reputable credit history. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's main source of funding has been through revenue earned from its operating well interests and the issuance of equity securities for cash. The Company's access to financing in the public markets is always uncertain. There can be no assurance of continued access to significant equity funding.

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 market interest rates. The Company is exposed to interest rate risk on its short-term investments as they are exposed to interest rate fluctuations on renewal. A 1% change in market interest rates would have an impact on the Company's net loss of approximately $9,000.

Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of assets and future cash flows will fluctuate as a result of changes in foreign currency exchange rates. However, the Company's functional currency is the Canadian dollar and the Company doesn't have any material assets or operations that are denominated in a foreign currency. Accordingly, the Company is not exposed to any material foreign exchange risk and has not hedged its limited exposure to currency fluctuations.

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company had no hedging contracts in place as at or during the year ended December 31, 2013. The Company's earnings and its ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of oil. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

(Expressed in Canadian dollars)

13. Financial risk management (continued)

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

The Company manages its capital requirements by maintaining a budgeting and forecasting process to determine whether equity funding is required.

The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are cash and cash equivalents, short term investments, a reclamation bond, and accounts receivable. Financial liabilities included in the statement of financial position are accounts payable.

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

14. Segmented information

The Company operates in a single reportable operating segment – the acquisition, production, exploration and development of oil and gas properties. The Company operates in one geographic segment located in Canada.

15. Expense by nature

General and administrative expense is comprised of the following:

	2013 ($)	**2012 ($)**
Office rent	101,252	61,751
Director fees	24,000	24,000
Management fees	24,000	29,500
Professional fees	188,228	152,729
Transfer and filing fees	15,721	16,389
Travel	35,217	14,396
Administrative and other	65,930	58,024
	454,348	356,789

(Expressed in Canadian dollars)

15. Expense by nature (continued)

Operating expense is comprised of the following:

	2013 ($)	**2012 ($)**
Contract labour	48,114	48,568
Depletion (Note 8)	85,485	100,926
Accretion of decommissioning provision (Note 10)	2,575	2,821
Power	22,976	25,784
Trucking	31,959	36,332
Supplies and other	91,063	49,250
	282,172	263,681

16. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before taxes. These differences result from the following items:

	2013 ($)	**2012 ($)**
Loss before income taxes	(671,444)	(150,667)
Canadian federal and provincial income tax rates	27.00%	27.00%
Income tax recovery based on the above rates	(181,290)	(40,680)
Increase (decrease) due to:		
Non-deductible items and other	371	290
Tax effect of tax losses and temporary differences not recognized	180,919	40,390
Income tax (recovery) expense	-	-

(Expressed in Canadian dollars)

16. Income taxes (continued)

The components of deferred income taxes are as follows:

	2013 ($)	2012 ($)
Deferred income tax assets		
Share issue costs	-	623
Decommissioning provisions	33,261	38,620
Non-capital losses	266,737	190,628
Property, plant, equipment and other	69,918	69,918
Total deferred income tax assets	369,916	299,789
Unrecognized deferred tax asset	(363,164)	(182,247)
Net deferred income tax asset	6,752	117,542
Deferred income tax liabilities		
Oil properties	6,752	117,542
Total deferred income tax liabilities	6,752	117,542
Deferred income tax liability, net	-	-

In assigning the realization of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

The Company has non-capital loss carry-forwards of approximately $987,916 that may be available for tax purposes. The loss carry-forwards are all in respect of its Canadian operations and expire as follows:

Year	Amount ($)
2029	245,116
2030	11,641
2031	401,114
2032	48,157
2033	281,888
	987,916

(Expressed in Canadian dollars)

17. Commitments

The Company has an office lease commitment that requires future aggregate payments as follows:

2014 - $105,062
2015 - $ 26,463

18. Non-cash Transactions

The Company had the following non-cash investing and financing activities:

	2013 ($)	**2012 ($)**
Accretion of the decommissioning provision	2,575	2,821

19. Subsequent events

Subsequent to the end of the year, the Company:

a) granted incentive stock options to certain of its directors, officers and consultants to purchase up to an aggregate of 675,000 common shares. The options will be exercisable at a price of $0.10 per common share for a period of five years.

b) participated in the drilling and completion of a new horizontal well in southeastern Saskatchewan. The Company maintains a 13% working interest in the well.