Abenteuer Resources Corp.

Consolidated Financial Statements

Years Ended

December 31, 2016 and 2015

(Expressed in Canadian Dollars)

April 13, 2017

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, 2016 and December 31, 2015 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
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

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, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Abenteuer Resources Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	December 31, 2016 ($)	December 31, 2015 ($)
ASSETS		
Current assets		
Cash	130,222	152,896
Prepaid expenses	2,482	6,670
Accounts receivable and other receivables (Note 5)	58,442	36,813
	191,146	196,379
Reclamation deposits (Note 6)	33,058	33,058
Oil properties (Note 7)	412,970	440,311
	637,174	669,748
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	113,592	58,580
Decommissioning obligations (Note 9)	122,404	112,734
	235,996	171,314
Shareholders' equity		
Share capital (Note 11)	2,819,649	2,819,649
Reserves (Note 11)	360,306	360,306
Deficit	(2,778,777)	(2,681,521)
	401,178	498,434
	637,174	669,748

Nature of Operations and Liquidity Risk (Note 1)
Subsequent Events (Note 16)

These consolidated financial statements were authorized for issue by the Board of Directors on April 13, 2017. They were signed on the Board's behalf by:

"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)

	Year Ended December 31, 2016 ($)	Year Ended December 31, 2015 ($)
REVENUE		
Oil sales	272,572	233,301
Royalty income	-	435
Royalties and freehold mineral tax	(38,403)	(24,332)
	234,169	209,404
EXPENSES		
Change in decommissioning estimate	3,738	1,263
General and administrative (Note 15)	162,848	269,210
Impairment (recovery) of oil property (Note 7)	(24,747)	20,936
Operating expenses (Note 15)	187,859	204,422
	329,698	495,831
OTHER ITEMS		
Finance expense	(1,857)	(1,934)
Other income	-	45,000
Interest income	130	1,227
	(1,727)	44,293
Net loss and comprehensive loss for the year	(97,256)	(242,134)
Basic and diluted loss per common share	(0.01)	(0.01)
Weighted average common shares outstanding:		
Basic	18,278,266	18,278,266
Diluted	18,278,266	18,278,266

See accompanying notes to the consolidated financial statements

Abenteuer Resources Corp.

Consolidated Statement of Changes in Shareholders`Equity
(Expressed in Canadian Dollars)

	Share capital		Reserves				
	Number of Shares	Amount	Option	Warrant	Total	Deficit	Total
		($)	($)	($)	($)	($)	($)
Balance at December 31, 2014	18,278,266	2,819,649	337,147	26,530	363,677	(2,442,758)	740,568
Stock options forfeited	-	-	(3,371)	-	(3,371)	3,371	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(242,134)	(242,134)
Balance at December 31, 2015	18,278,266	2,819,649	333,776	26,530	360,306	(2,681,521)	498,434
Net loss and comprehensive loss for the year	-	-	-	-	-	(97,256)	(97,256)
Balance at December 31, 2016	18,278,266	2,819,649	333,776	26,530	360,306	(2,778,777)	401,178

Abenteuer Resources Corp.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year Ended December 31, 2016	Year Ended December 31, 2015
	($)	($)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the year	(97,256)	(242,134)
Items not affecting cash:		
Accretion	1,856	1,934
Change in estimate for decommissioning provision	3,738	1,263
Depletion	56,162	52,797
Impairment of oil property	(24,747)	20,936
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(21,629)	(113)
Decrease in prepaids	4,188	43,995
Increase in accounts payable and accrued liabilities	55,014	(394)
	(22,674)	(121,716)
INVESTING ACTIVITIES		
Redeem short-term investment	-	207,595
	-	207,595
Change in cash during the year	(22,674)	85,879
Cash - beginning of year	152,896	67,017
Cash - end of year	130,222	152,896

During the years ended December 31, 2016 and 2015, the Company had no significant non-cash financing transactions.

See accompanying notes to the consolidated financial statements

1. Nature of Operations and Liquidity Risk

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 414 – 837 West Hastings Street, Vancouver, BC, Canada, V6C 3N6. The Company is engaged primarily in the exploration for, and the production of, petroleum reserves in Western Canada. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "ABU".

The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for oil. The Company had cash of $130,222, working capital of $77,554, accumulated deficit of $2,778,777 and losses of $97,256 as at and for the year ended December 31, 2016. Subsequent to December 31, 2016, the Company completed an equity financing for gross proceeds of $300,000, and settled $72,235 of related party payables through the issuance of common shares (See note 16).

2. Basis of Preparation

Statement of compliance

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These audited annual consolidated financial statements were approved for issue by the Company's Board of Directors on April 13, 2017.

Basis of measurement

All references to dollar amounts in these financial statements and related notes are in Canadian dollars, unless otherwise indicated.

These financial statements have been prepared on a historical cost basis.

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.

2. Basis of Preparation (continued)

The following areas required a significant degree of estimation and judgment:

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 7).

Determination of cash generating units

Oil properties are grouped into cash generating units ("CGUs") 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 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 of disposal. 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 (Note 7).

2. Basis of Preparation (continued)

Significant Accounting Judgments, Estimates and Assumptions *(continued)*

Decommissioning provisions

Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. Abenteuer estimates abandonment and reclamation costs based on a combination of publically available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the proved plus probable period to abandonment for each field, as per the independent reserve report. 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 9).

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Roughrider Energy Corp. All intercompany transactions and balances are eliminated upon consolidation. As at December 31, 2016, Roughrider Energy Corp. was a dormant corporation with no active business or operations.

Foreign currency translation

The functional currency of the Company and its subsidiary 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 "general and administrative".

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.

Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100% 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.

3. Summary of Significant Accounting Policies (continued)

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, and 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. If and when stock options are ultimately exercised, the amount of cash received as well as the applicable amount of the associated reserve is transferred to share capital.

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.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD").

FVLCD is defined as the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The Company calculates FVLCD by reference to the after-tax future cash flows expected to be derived from production of proved plus probable reserves, less estimated selling costs. The estimated after-tax future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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)

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.

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.

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. The Company uses a pre-tax discount rate that reflects the time value of money to calculate the net present value of the decommissioning provisions. 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, except when the related oil and gas property is closed. Changes in estimates of restoration costs for closed oil and gas properties are recorded in the income statement. 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 finance 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.

4. Accounting Standards Issued But Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The pronouncements are being assessed to determine their impact on the Company's results and financial position.

<u>New standards, amendments and interpretations to existing standards not yet effective</u>

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2018 but are not yet effective:

IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, *Financial Instruments: Recognition and Measurement.*

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 15, Revenue from Contracts with Customers

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

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2019 but are not yet effective:

IFRS 16, Leases

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

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will early adopt these standards.

(Expressed in Canadian dollars)

5. Accounts Receivable and Other Receivables

	2016	2015
	($)	($)
GST receivable	976	1,208
Trade receivables	57,466	35,605
	58,442	36,813

6. Reclamation Deposits

The Company has reclamation bonds totaling $33,058 ($20,000 - Well and $13,058 - Battery) that are held with the Bank of Montreal in favour of the Saskatchewan Industry and Resources in the event that well King 03-27-004-07 W2 becomes orphaned. The bonds earn interest at a rate of 0.65% and prime – 2.00% per annum, respectively.

7. Oil Properties

The Company has working interests in six wells in southeastern Saskatchewan at Kingsford. All of the wells are horizontal wells (HZ), with the exception of Well #1 which is a vertical well.

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

As a result of a decrease in forecast oil and natural gas prices, an indication of potential impairment was identified for all CGUs as at December 31, 2016. Recoverable amounts for the Company's CGUs were estimated based on FVLCD, calculated using the present value of the CGUs' expected future cash flows (after-tax). The primary source of cash flow information was derived from a report on the Company's oil and gas reserves (the "McDaniel Report") which was prepared by an independent qualified reserve evaluator, McDaniel and Associates Consultants Ltd. ("McDaniel"). The Company reviews each CGU for indicators of possible impairment at the end of each reporting period. During the year ended December 31, 2016, the Company identified impairment indicators with respect to Well #2, specifically that the well had a remaining reserve value that was less than its carrying value. Accordingly, the Company recorded an impairment loss of $12,646 related to Well #2.

During the year ended December 31, 2016 the Company identified indicators of impairment reversal for Well #1, specifically that the well had a remaining reserve value that was higher than its carrying value. Accordingly, the Company recorded an impairment reversal of $37,393.

(Expressed in Canadian dollars)

7. Oil Properties (continued)

The projected cash flows in the McDaniel Report reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on past experience, historical trends and McDaniel's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, and capital expenditures are consistent with the estimates approved through the Company's annual reserves evaluation process. Future cash flow estimates are discounted using after-tax risk adjusted discount rates that reflect the risk specific to the assets in the CGU. The after-tax discount rate applied in the impairment calculation as at December 31, 2016 was 10% (2015 – 10%) for all CGUs.

Based on this analysis, it was concluded that the no impairment with respect to the remaining oil properties was required.

During the year ended December 31, 2015, the Company identified impairment indicators with respect to Well #3, specifically that the well has been shut-in for twelve months and has not produced any oil. The Company estimated that there was no recoverable value from the well, and recorded an impairment loss of $20,936.

Forecast future prices used in the impairment evaluation as at December 31, 2016 reflect benchmark AECO-C prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

	2017	**2018**	**2019**	**2020**	**2021 (1)**
Oil ($/bbl)	61.80	66.59	69.17	74.35	79.43

(1) Prices escalate at 2% per annum thereafter.

For the year ended December 31, 2016, a one percent increase in the discount rate from 10% to 11% to determine the fair value less cost of disposal would have resulted in impairment expense of approximately $1,919 (2015 - $6,450). A five percent decrease in the forecasted oil price would have resulted in impairment expense of approximately $9,154 (2015 - $8,259).

(Expressed in Canadian dollars)

7. Oil Properties (continued)

2016	Well #1	Well #2	Well #3	Well #4	Well #5	Well #6	Total
	($)	($)	($)	($)	($)	($)	($)
Cost:							
At December 31, 2015	391,794	82,959	729,680	346,184	508,592	249,378	2,308,497
Additions	-	-	-	-	-	-	-
Decommissioning change in estimate	3,446	847	-	(974)	1,356	(598)	4,076
At December 31, 2016	395,240	83,806	729,680	345,210	509,858	248,780	2,312,573
Depletion:							
At December 31, 2015	(264,508)	(60,784)	(475,831)	(242,151)	(366,748)	(100,337)	(1,510,359)
Charge for the period	(5,683)	(2,195)	-	(9,317)	(11,095)	(27,874)	(56,164)
At December 31, 2016	(270,191)	(62,979)	(475,831)	(251,468)	(377,843)	(128,211)	(1,566,523)
Impairment:							
At December 31, 2015	(103,978)	-	(253,849)	-	-	-	(357,827)
Charge for the period	37,393	(12,646)	-	-	-	-	24,747
At December 31, 2016	(66,585)	(12,646)	(253,849)	-	-	-	(333,080)
Net book value:							
At December 31, 2015	23,308	22,175	-	104,033	141,754	149,041	440,311
At December 31, 2016	**58,464**	**8,181**	**-**	**93,742**	**132,015**	**120,569**	**412,970**

2015	Well #1	Well #2	Well #3	Well #4	Well #5	Well #6	Total
	($)	($)	($)	($)	($)	($)	($)
Cost:							
At December 31, 2014	391,618	82,728	729,680	347,266	507,233	250,898	2,309,423
Additions	-	-	-	-	-	-	-
Decommissioning change in estimate	176	231	-	(1,082)	1,269	(1,520)	(926)
At December 31, 2015	391,794	82,959	729,680	346,184	508,592	249,378	2,308,497
Depletion:							
At December 31, 2014	(258,860)	(58,009)	(475,810)	(234,585)	(354,282)	(76,016)	(1,457,562)
Charge for the period	(5,648)	(2,775)	(21)	(7,566)	(12,466)	(24,321)	(52,797)
At December 31, 2015	(264,508)	(60,784)	(475,831)	(242,151)	(366,748)	(100,337)	(1,510,359)
Impairment:							
At December 31, 2014	(103,978)	-	(232,913)	-	-	-	(336,891)
Charge for the period	-	-	(20,936)	-	-	-	(20,936)
At December 31, 2015	(103,978)	-	(253,849)	-	-	-	(357,827)
Net book value:							
At December 31, 2014	28,780	24,719	20,957	112,681	152,951	174,882	514,970
At December 31, 2015	**23,308**	**22,175**	**-**	**104,033**	**141,754**	**149,041**	**440,311**

(Expressed in Canadian dollars)

8. Accounts Payables and Accrued Liabilities

	2016	**2015**
	($)	**($)**
Trade payables	17,547	9,223
Related party payables	70,545	23,857
Accrued liabilities	25,500	25,500
	113,592	58,580

9. Decommissioning Obligations

	2016	**2015**
	($)	**($)**
Balance, beginning	112,734	110,463
Change in estimate	7,814	337
Accretion expense	1,856	1,934
Balance, end	122,404	112,734

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 McDaniel. 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 asset retirement obligation using a risk free discount rate of 2.2% (December 31, 2015 – 1.7%). The estimated total future undiscounted cash flows to settle the asset retirement obligations are $166,300 (December 31, 2015 - $130,961) and are expected to be incurred over a period of approximately 24 years.

10. Related Party Transactions

The Company incurred the following transactions with directors and companies that are controlled or significantly influenced by Directors of the Company during the years ended December 31, 2016 and 2015.

	2016	**2015**
	($)	**($)**
Director fees accrued to two independent directors of the Company.	24,000	24,000
Consulting fees paid or accrued to a corporation significantly influenced by a director of the Company.	-	7,500
Mineral royalties paid or accrued to the Chief Executive Officer ("CEO") of the Company.	1,301	1,362
	25,301	32,862

(Expressed in Canadian dollars)

10. Related Party Transactions (continued)

Key management compensation

	2016	2015
	($)	($)
Management and director fees paid or accrued to the CEO or a corporation controlled by the CEO of the Company.	12,000	24,000
Professional and director fees paid or accrued to the Chief Financial Officer ("CFO") or a corporation controlled by the CFO of the Company.	36,000	48,000
	48,000	72,000

a) As at December 31, 2016, a total of $11,806 (2015 - $278) was included in accounts payable and accrued liabilities as owing to the CEO of the Company and a corporation controlled by the CEO for mineral royalties, director fees and reimbursable expenses.

b) As at December 31, 2016, a total of $11,580 (2015 - $Nil) was included in accounts payable and accrued liabilities as owing to the CFO of the Company for director fees.

c) As at December 31, 2016, a total of $47,159 (2015 - $23,579) was included in accounts payable and accrued liabilities as owing to two directors of the Company for director fees.

11. 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 common shares issued during the years ended December 31, 2016 and 2015.

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, in 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.

(Expressed in Canadian dollars)

11. Share Capital (continued)

Options may be exercised no later than 90 days following cessation of the optionee's position with the Company.

A continuity schedule of stock option activity is as follows:

	Number Outstanding	Weighted Average Exercise Price
		($)
Balance – December 31, 2014	1,825,000	0.16
Forfeited	(55,000)	0.10
Balance – December 31, 2015	1,770,000	0.16
Expired	(1,150,000)	0.20
Balance – December 31, 2016	620,000	0.10

During the year ended December 31, 2016, there were 1,150,000 incentive stock options (2015 - 55,000) that expired without being exercised.

As at December 31, 2016, there are 620,000 incentive stock options outstanding and exercisable at an exercise price of $0.10 per share until April 7, 2019.

12. 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:

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.

12. Financial Risk Management (continued)

The Company's financial liabilities consist of accounts payable and accrued liabilities, all of which are due within 12 months.

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 cash. A 1% change in market interest rates would not have a material impact on the Company's net loss.

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.

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 the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets.

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

There have been no changes to the Company's approach to capital management during the year ended December 31, 2016.

Classification of financial instruments

Financial assets included in the statement of financial position are cash, reclamation bond, and accounts receivable. Financial liabilities included in the statement of financial position are accounts payable and accrued liabilities. The fair value of the Company's financial assets and liabilities approximates the carrying amount due to their short term to maturity.

13. Segmented Information

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

(Expressed in Canadian dollars)

14. Income Tax

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:

	2016	2015
	($)	($)
Loss before income taxes	(97,256)	(242,134)
Canadian federal and provincial income tax rates	27.00%	27.00%
Income tax recovery based on the above rates	(26,259)	(65,376)
Increase (decrease) due to:		
Non-deductible items	43	172
Other	486	83
Differences in long term tax rates	10,946	
Tax effect of tax losses and temporary differences not recognized	14,784	65,121
Income tax (recovery) expense	-	-

The components of deferred income taxes are as follows:

	2016	2015
	($)	($)
Deferred income tax assets		
Decommissioning provisions	32,437	30,438
Non-capital losses	415,037	406,644
Property, plant, equipment and other	68,623	69,918
Oil properties	89,785	84,098
Total deferred income tax assets	605,882	591,098
Unrecognized deferred tax asset	(605,882)	(591,098)

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.

(Expressed in Canadian dollars)

14. Income Taxes (continued)

The Company has non-capital loss carry-forwards of approximately $1,566,176 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
2034	353,600
2035	164,572
2036	60,089
	1,566,176

15. Expense by Nature

General and administrative expenses for the years ended December 31, 2016 and 2015 are comprised of the following:

	2016	2015
	($)	($)
Office rent	762	25,568
Director fees	48,000	24,000
Management fees	-	24,000
Professional and consulting fees	68,420	99,275
Transfer and filing fees	16,521	14,333
Travel	-	26,436
Administrative and other	29,145	55,598
	162,848	269,210

Operating expenses for the years ended December 31, 2016 and 2015 are comprised of the following:

	2016	2015
	($)	($)
Consulting and labour	21,103	28,855
Depletion (Note 7)	56,162	52,797
Power	26,203	24,631
Trucking	22,644	24,713
Supplies and other	61,747	73,426
	187,859	204,422

16. Subsequent Events

Subsequent to December 31, 2016, the Company:

a) completed a non-brokered equity financing wherein it issued 6,000,000 common shares at $0.05 per share for aggregate proceeds of $300,000.

b) settled $72,235 in outstanding related party payables through the issuance of 963,133 common shares.

c) acquired a 100% interest in the Temiskaming and Fabre Cobalt - Silver property in exchange for 2,650,000 common shares of the Company. The shares are subject to a voluntary pooling whereby 50% will be released four months after the date of issuance and the remaining 50% will be released nine months after the date of issuance.