VINERGY RESOURCES LTD.

Consolidated Financial Statements

Years Ended February 28, 2018 and 2017

(Expressed in Canadian dollars)

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP

1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Vinergy Resources Ltd.

We have audited the accompanying consolidated financial statements of Vinergy Resources Ltd., which comprise the consolidated statements of financial position as at February 28, 2018 and 2017 and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Vinergy Resources Ltd. as at February 28, 2018 and 2017 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Vinergy Resources Ltd. to continue as a going concern.

Saturna Group LLP

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

June 28, 2018

VINERGY RESOURCES LTD.
Consolidated statements of financial position
(Expressed in Canadian dollars)

	February 28, 2018 $	February 28, 2017 $
Assets		
Current assets		
Cash and cash equivalents	826,899	1,582,237
Amounts receivable	–	4,277
Prepaid expenses and deposits	18,000	30,679
Loans receivable (Note 3)	912,174	304,400
Total assets	1,757,073	1,921,593
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	336,400	252,931
Loan payable (Note 5)	20,000	45,000
Convertible debenture (Note 6)	215,000	215,000
Due to related parties (Note 7)	512,528	504,762
Total liabilities	1,083,928	1,017,693
Shareholders’ equity		
Share capital	2,531,290	2,531,290
Share-based payment reserve	171,016	130,128
Equity component of convertible debt	176,251	176,251
Deficit	(2,205,412)	(1,933,769)
Total shareholders’ equity	673,145	903,900
Total liabilities and shareholders’ equity	1,757,073	1,921,593

Nature of operations and continuance of business (Note 1)
Subsequent events (Note 14)

Approved and authorized for issuance by the Board of Directors on June 28, 2018:

/s/ “Glen Macdonald”
Glen Macdonald, Director

/s/ “Glen Indra”
Glen Indra, Director

(The accompanying notes are an integral part of these consolidated financial statements)

VINERGY RESOURCES LTD.
Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Year ended February 28, 2018 $	Year ended February 28, 2017 $
Expenses		
General and administrative	5,949	1,830
Investor relations	79,478	70,476
Management fees (Note 8)	–	28,800
Professional fees (Note 8)	69,574	74,220
Share-based compensation	40,888	–
Transfer agent and filing fees	44,529	60,879
Loss before other expense	(240,418)	(236,205)
Other expense		
Finance costs	(31,225)	(29,409)
Net loss	(271,643)	(265,614)
Loss per share, basic and diluted	(0.01)	(0.01)
Weighted average common shares outstanding	36,750,330	27,760,316

(The accompanying notes are an integral part of these consolidated financial statements)

VINERGY RESOURCES LTD.
Consolidated statements of changes in equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve	Equity component of convertible debt	Deficit	Total shareholders' equity (deficit)
	Number of shares	Amount $	$	$	$	$
Balance, February 29, 2016	26,333,330	700,821	–	176,251	(1,668,155)	(791,083)
Shares issued pursuant to private placement	10,417,000	2,083,400	–	–	–	2,083,400
Share issuance costs	–	(252,931)	130,128	–	–	(122,803)
Net loss for the year	–	–	–	–	(265,614)	(265,614)
Balance, February 28, 2017	36,750,330	2,531,290	130,128	176,251	(1,933,769)	903,900
Fair value of stock options granted	–	–	40,888	–	–	40,888
Net loss for the year	–	–	–	–	(271,643)	(271,643)
Balance, February 28, 2018	36,750,330	2,531,290	171,016	176,251	(2,205,412)	673,145

(The accompanying notes are an integral part of these consolidated financial statements)

VINERGY RESOURCES LTD.
Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Year ended February 28, 2018 $	Year ended February 28, 2017 $
Operating activities:		
Net loss	(271,643)	(265,614)
Items not involving cash:		
Share-based compensation	40,888	–
Changes in non-cash operating working capital:		
Amounts receivable	4,277	(4,064)
Prepaid expenses and deposits	12,679	(16,833)
Accounts payable and accrued liabilities	83,469	89,830
Due to related parties	7,766	67,593
Net cash used in operating activities	(122,564)	(129,088)
Investing activities		
Advances for loans receivable	(607,774)	(275,000)
Net cash used in investing activities	(607,774)	(275,000)
Financing activities		
Proceeds from loans payable	–	25,000
Repayment of loans payable	(25,000)	–
Proceeds from issuance of common shares	–	2,083,400
Share issuance costs	–	(122,803)
Net cash provided by (used in) financing activities	(25,000)	1,985,597
Increase (decrease) in cash and cash equivalents	(755,338)	1,581,509
Cash and cash equivalents, beginning of year	1,582,237	728
Cash and cash equivalents, end of year	826,899	1,582,237
Cash and cash equivalents consist of:		
Cash in bank	807,850	563,188
Cash in legal trust account	19,049	1,019,049
Total cash and cash equivalents	826,899	1,582,237
Non-cash financing activities:		
Fair value of finders' warrants issued as share issuance costs	–	130,128

(The accompanying notes are an integral part of these consolidated financial statements)

1. Nature of Operations and Continuance of Business

Vinergy Resources Ltd. (the "Company") was incorporated as Vanguard Investments Corp. on March 20, 2001 under the provisions of the Alberta Business Corporations Act. On May 10, 2011, the Company changed its name to Vinergy Resources Ltd. and continued the Company's registered jurisdiction from Alberta to British Columbia. The Company's head office is located at Suite 1008, 409 Granville Street, Vancouver, BC, V6C 1T2 and its shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "VIN".

On November 30, 2009, the Company entered into a Share Purchase Agreement (the "Agreement") with Zeus Energy Inc. ("Zeus") and its shareholders to acquire 100% of the issued and outstanding shares of Zeus. Zeus was incorporated on November 7, 2007 under the Alberta Business Corporations Act. Since the closing of the Agreement on November 30, 2009, the Company has been in the business of oil and gas acquisition, exploration and development. On May 2, 2017 Zeus Energy Inc. was discontinued.

On May 8, 2017 (as amended), the Company entered into a share exchange agreement (the "Agreement") with 1099955 B.C. Ltd. ("MJ BioPharma") a private British Columbia company. Pursuant to the terms of the Agreement, the Company will acquire 100% of the issued and outstanding securities of MJ BioPharma by issuing 4,000,000 common shares of the Company to the shareholders of MJ BioPharma. The Company will issue 400,000 common shares as a finder's fee on the closing of the transaction. The Agreement is subject to regulatory approval. The Agreement was cancelled on April 19, 2018.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at February 28, 2018, the Company has no revenue generated from operations and has an accumulated deficit of $2,205,412. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that with its current cash and other funds that may be obtained from external financing that it has sufficient working capital to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the IFRS Interpretations Committee.

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company's functional currency.

(b) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Zeus Energy Inc. All inter-company transactions and balances have been eliminated. On May 2, 2017, Zeus Energy Inc. was discontinued.

(c) Use of Estimates and Judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2. Significant Accounting Policies (continued)

(c) Use of Estimates and Judgments

Significant areas requiring the use of estimates include the collectability of loans receivable, fair value of share-based payments, and unrecognized deferred income tax assets.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(e) Exploration and Evaluation Assets

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-license costs are recognized in the consolidated statement of operations as incurred. Exploration and evaluation costs, including the costs of acquiring licenses, geological and geophysical, drilling, sampling, decommissioning and often directly attributable internal costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area and not depreciated pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

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

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU") for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within the consolidated statement of operations.

2. Significant Accounting Policies (continued)

(e) Exploration and Evaluation Assets (continued)

(ii) Subsequent costs:

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

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. The estimated useful lives for all production assets are assumed to be equal to the reserve life of the oil and natural gas assets, and therefore are also depreciated using the unit of production method. For other assets, depreciation is recognized in the consolidated statement of operations on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

(f) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit (“CGU”) to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset’s value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the consolidated statement of operations.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the consolidated statement of operations.

2. Significant Accounting Policies (continued)

(g) Decommissioning, Restoration, and Similar Liabilities

The Company records the present value of estimated costs of legal and constructive obligations required to restore the site in the period in which the obligation is incurred. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The future obligations for well closure activities are estimated by the Company using well closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of the countries in which the wells operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of the obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the well closure activities are to be carried out.

The present value of decommissioning and site restoration provision as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. The provision is discounted using a nominal, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. The related decommissioning provision is recorded as part of the oil and gas property and depreciated accordingly. In subsequent periods, the carrying amount of the liability is accreted by a charge to the consolidated statement of operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the estimated outstanding continuous rehabilitation work at each statement of financial position date and the cost is charged to the consolidated statement of operations.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mineral properties, plant and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Company’s closure and reclamation obligations becomes available.

2. Significant Accounting Policies (continued)

(h) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the consolidated statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash and cash equivalents are classified as fair value through profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the consolidated statement of operations. The Company does not have any assets classified as available-for-sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of amounts receivable and loans receivable.

2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the consolidated statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the consolidated statement of operations are not reversed through the consolidated statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, loans payable, convertible debenture, and amounts due to related parties.

2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(ii) Non-derivative financial liabilities (continued)

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(i) Foreign Currency Translation

The financial statements for the Company's subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates. The functional and reporting currency of the Company is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

(j) Income Taxes

Current income tax

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. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the consolidated statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position 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 income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. 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.

2. Significant Accounting Policies (continued)

(k) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted losses per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at February 28, 2018, the Company had 9,608,500 (2017 – 9,837,700) potentially dilutive shares outstanding.

(l) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the consolidated statement of operations.

(m) Share-based Payments

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense and share-based payment reserve. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the consolidated statement of operations with a corresponding entry within equity, against share-based payment reserve. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in share-based payment reserve, are credited to share capital.

Share-based payments arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company will measure their value by reference to the fair value of the equity instruments granted.

(m) Reclassifications

Certain of the prior year figures have been reclassified to conform to the current year's presentation.

(n) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended February 28, 2018, and have not been applied in preparing these consolidated financial statements.

IFRS 9, *Financial Instruments* (New)
IFRS 2, *Share-based Payment* (Amended)

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the Company's consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

3. Loans Receivable

(a) In conjunction with the plan of arrangement for each of the former subsidiary companies: Arq Graphite Inc, 0990756 BC Ltd., Jonpol Rare Earths Inc., Leucadia Finance Partners Inc., Wayzata Film Finance Inc., and Wedona Uranium Inc., the Company advanced $4,900 to each of these companies for a total $29,400 (2017 - $29,400). These loans are non-interest bearing, unsecured, and due on demand.

(b) As at February 28, 2018, the Company has a loan receivable of $345,680 (2017 - $115,000) to 1099955 B.C. Ltd. These advances are non-interest bearing, unsecured, and due on demand.

(c) As at February 28, 2018, the Company has a loan receivable of $160,000 (2017 - $160,000) from a non-related party which is non-interest bearing, unsecured, and due on demand.

(d) As at February 28, 2018 the Company has a loan receivable of $60,000 (2017 - $nil) to a non-related company which is non-interest bearing, unsecured, and due on demand.

(e) As at February 28, 2018 the Company has a loan receivable of $125,000 (2017 - $nil) to a non-related company which is non-interest bearing, unsecured, and due on demand.

(f) As at February 28, 2018 the Company has a loan receivable of $25,000 (2017 - $nil) to a non-related company which is non-interest bearing, unsecured, and due on demand.

(g) Ass at February 28, 2018, the Company has a loan receivable of $167,076 (2017 - $nil) to a non-related company which is non-interest bearing, unsecured, and due on demand.

4. Accounts Payable and Accrued Liabilities

	2018 $	2017 $
Trade accounts payable	59,291	49,782
Accrued liabilities	89,088	46,353
Accrued interest payable	188,021	156,796
	336,400	252,931

5. Loans Payable

(a) As at February 28, 2018, the Company owed $20,000 (2017 – $20,000) to a non-related party. The amount owing is unsecured, bears interest at 20% per annum compounded monthly, and is due on demand. As at February 28, 2018, the Company had incurred interest on this loan of $34,045 (2017 - $24,320), which is included in accounts payable and accrued liabilities.

(b) As at February 28, 2018, the Company owed $nil (2017 – $25,000) to a non-related party which is non-interest bearing, unsecured, and due on demand.

6. Convertible Debenture

On January 15, 2010, the Company issued a $215,000 convertible debenture which bears interest at 10% per annum, is unsecured, and was due on January 16, 2015. The debenture was convertible into shares of the Company at a conversion price of $0.05 per share at any time at the option of the holder prior to the due date. The Company’s convertible debenture matured on January 16, 2015 and the Company continues to accrue interest at the rate of 10% per annum. The convertible debenture is currently in default.

The fair value of the equity component was determined to be $176,251 (2017 - $176,251) which was recorded as equity and an equivalent discount on the convertible debenture. The fair value was estimated using the Black-Scholes option pricing model assuming no expected dividends, a risk free interest rate of 2.99%, expected life of 5 years, and expected volatility of 100%. The accretion of the discount was recognized over the term of the debenture. As at February 28, 2018, the carrying value of the convertible debenture is $215,000 (2017 - $215,000).

(Expressed in Canadian dollars)

7. Related Party Transactions

(a) As at February 28, 2018, the amount of $385,128 (2017 - $377,362) is owed to the former President of the Company and companies controlled by the President of the Company which is non-interest bearing, unsecured, and due on demand.

(b) As at February 28, 2018, the amount of $127,400 (2017 - $127,400) is owed to the spouse of the former President of the Company, which is non-interest bearing, unsecured, and due on demand.

(c) For the year ended February 28, 2018, the amount of $nil (2017 – $28,800) was incurred to the former President of the Company for management fees.

(d) For the year ended February 28, 2018, the amount of $nil (2017 - $19,200) was incurred to the spouse of the former President of the Company for professional fees.

8. Share Capital

Authorized: Unlimited number of common shares without par value

On January 9, 2017, the Company issued 10,417,000 units at $0.20 per unit for proceeds of $2,083,400. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole share purchase warrant is exercisable at $0.40 per common share expiring on January 9, 2018. In connection with this private placement, the Company paid $122,803 in finders' fees and issued 329,200 finders' warrants with a fair value of $130,128. The finder's warrants are exercisable at $0.40 per common share expiring on January 9, 2018. The Company is entitled to accelerate the expiry date of the finders' warrants to the date that is 30 days following a notification issued by the Company announcing that the volume weighted average price of the shares on the Canadian Securities Exchange exceeds $0.55 for any 10 consecutive trading days after the hold period on the shares has expired. The fair value of the finders' warrants was calculated using the Black-Scholes option pricing model with the following assumptions: volatility of 194%, risk-free rate of 0.65%, expected life of one year, no expected dividends, and no expected forfeitures.

9. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price $
Balance, February 29, 2016	–	–
Issued	5,537,700	0.40
Balance, February 28, 2017	5,537,700	0.40
Expired	(329,200)	0.40
Balance, February 28, 2018	5,208,500	0.40

As at February 28, 2017, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price $	Expiry date
5,208,500	0.40	July 9, 2018

On January 2, 2018, the Company extended the expiry date of its 5,208,500 outstanding share purchase warrants from January 9, 2018 to July 9, 2018.

(Expressed in Canadian dollars)

10. Stock Options

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price $
Outstanding, February 29, 2016 and February 28, 2017	–	–
Granted	100,000	0.60
Outstanding, February 28, 2018	100,000	0.60

Additional information regarding stock options outstanding as at February 28, 2018 is as follows:

	Outstanding and exercisable		
Range of exercise prices $	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $
0.60	100,000	1.0	0.60

The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2018	2017
Risk-free interest rate	0.82%	–
Expected life (in years)	2	–
Forfeiture rate	0%	–
Expected volatility	144%	–

For the year ended February 28, 2018, the total fair value of the stock options granted was $40,888 (2017 - $nil) which was recorded as share-based payment reserve and charged to operations. The weighted average grant date fair value of stock options granted during the year ended February 28, 2018 was $0.41 (2017 - $nil) per share.

11. Financial Instruments

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at February 28, 2018 is as follows:

	Fair value measurements using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, February 28, 2018 $
Cash and cash equivalents	826,899	–	–	826,899

The fair values of other financial instruments, which include amounts receivable, loans receivable, accounts payable and accrued liabilities, loans payable, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments. The fair value of the convertible debenture is estimated to approximate its carrying value based on borrowing rates currently available to the Company for a loan with similar terms.

11. Financial Instruments (continued)

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. Amounts receivable consist of GST refunds due from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

The Company is not exposed to any significant foreign exchange rate risk.

(d) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(e) 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 currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(f) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities. As the Company does not have any producing assets or any current programs for exploration, management considers the Company's commodity price risk to be minimal.

12. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents and equity comprised of issued share capital, share-based payments reserve, and equity component of convertible debt.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remained unchanged from the year ended February 28, 2017.

(Expressed in Canadian dollars)

13. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2018 $	2017 $
Canadian statutory income tax rate	26.17%	26%
Income tax recovery at statutory rate	(71,080)	(69,060)
Tax effect of:		
Permanent differences and other	10,685	(31,929)
Change in enacted tax rates	(19,582)	14,529
Expiry of non-capital losses and resources expenditure pools	23,702	–
Change in unrecognized deferred income tax assets	56,275	86,460
Income tax provision	–	–

The significant components of deferred income tax assets and liabilities are as follows:

	2018 $	2017 $
Deferred income tax assets		
Non-capital losses carried forward	515,111	366,473
Resource properties	–	86,714
Share issuance costs	19,894	25,543
Total gross deferred income tax assets	535,005	478,730
Unrecognized deferred income tax assets	(535,005)	(478,730)
Net deferred income tax asset	–	–

As at February 28, 2018, the Company has non-capital losses carried forward of $1,907,817, which are available to offset future years' taxable income. These losses expire as follows:

	$
2026	56,949
2027	36,881
2028	93,472
2029	64,705
2030	54,711
2031	149,954
2032	138,703
2033	81,711
2034	138,430
2035	126,799
2036	99,814
2037	290,175
2038	575,513
	1,907,817

14. Subsequent Events

(a) On March 8, 2018, the Company entered into a share exchange agreement with a non-related party whereby it agreed to exchange 2,025,000 common shares of this company for 9,000,000 common shares of the Company. As part of this agreement, the Company has an option to purchase an additional 2,475,000 common shares of this company in exchange for 1,000,000 common shares of the Company expiring two years from the closing date.

(b) On March 20, 2018, the Company advanced $50,000 to a non-related party. The loan receivable is non-interest bearing, unsecured and due on demand.

(c) On May 18, 2018, the Company advanced $50,000 to a non-related party. The loan receivable is non-interest bearing, unsecured and due on demand.

(d) Subsequent to February 28, 2018, the Company advanced $30,000 towards the purchase of 1,245,300 common shares of a non-related company at a price of $0.4015 per share pursuant to a private placement agreement.