BIG SKY PETROLEUM CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in US Dollars)

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Contents

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BIG SKY PETROLEUM CORPORATION

Opinion
We have audited the financial statements of Big Sky Petroleum Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern
Without qualifying our opinion, we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other information
Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of the auditors' report. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audits 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 24, 2019

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BIG SKY PETROLEUM CORPORATION

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31
(Expressed in US dollars)

	Notes		2018		2017
Assets					
Accounts receivable		$	1,862	$	703
Cash			39,792		11,260
Total current assets			41,654		11,963
Total assets		$	41,654	$	11,963
Shareholders' Deficiency					
Share capital	5	$	10,559,429	$	10,190,960
Reserves	5		1,351,889		1,314,622
Deficit			(12,002,978)		(11,915,345)
Total shareholders' deficiency			(91,660)		(409,763)
Liabilities					
Due to related parties	6		75,648		32,786
Accounts payable and accrued liabilities			57,666		388,940
Total current liabilities			133,314		421,726
Total shareholders' deficiency and liabilities		$	41,654	$	11,963

These financial statements are authorized for issue by the Board of Directors on April 24, 2019.

They are signed on the Company's behalf by:

/s/Desmond M. Balakrishnan
Director

/s/Sean Bromley
Director

See notes to financial statements

BIG SKY PETROLEUM CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in US dollars)

	Notes		2018		2017
General and administrative expenses					
Accounting, audit and legal fees	6	$	39,878	$	47,128
Consulting fees	6		23,163		-
Stock based compensation			15,653		-
Transfer agent, listing and filing fees			9,232		8,411
Investor relations			-		347
Office and administrative			84		118
			(88,010)		(56,004)
Other items					
Foreign exchange loss			-		(11,544)
Interest income			377		44
			377		(11,500)
Net loss from continuing operations			(87,633)		(67,504)
Net income from discontinued operations	4		-		591,780
Net income (loss) for the year			(87,633)		524,276
Exchange differences on translation of foreign operations and due to presentation currency			21,614		(15,496)
Total comprehensive income (loss) for the year		$	(66,019)	$	508,780
Basic and diluted loss per share from continuing operations		$	(0.02)	$	(0.03)
Basic and diluted earnings per share from discontinued operations		$	-	$	0.24
Weighted average number of common shares outstanding			4,112,048		2,427,067

See notes to financial statements

BIG SKY PETROLEUM CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(Expressed in US dollars)

	Number of Shares	Special Warrants	Share Capital	Reserves: Stock-based Compensation	Reserves: Warrants	Reserves: Foreign Currency Translation	Deficit	Total Shareholders' Deficiency
Balance as at December 31, 2016	2,427,067	-	$ 10,190,960	$ 398,347	$ 686,976	$ 244,795	$ (12,439,621)	$ (918,543)
Net loss and comprehensive loss for the year	-	-	-	-	-	(15,496)	524,276	508,780
Balance as at December 31, 2017	2,427,067	-	10,190,960	398,347	686,976	229,299	(11,915,345)	(409,763)
Net loss and comprehensive loss for the year	-	-	-	-	-	21,614	(87,633)	(66,019)
Special Warrants	-	380,650	-	-	-	-	-	380,650
Shares issued upon conversion of special warrants	9,999,997	(380,650)	380,650	-	-	-	-	-
Share issuance costs	-	-	(12,181)	-	-	-	-	(12,181)
Share-based compensation	-	-	-	15,653	-	-	-	15,653
Balance as at December 31, 2018	**12,427,064**	**-**	**$ 10,559,429**	**$ 414,000**	**$ 686,976**	**$ 250,913**	**$ (12,002,978)**	**$ (91,660)**

See notes to financial statements

BIG SKY PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in US dollars)

		2018		2017
Cash provided by (used in)				
Operating activities				
Net loss from continuing operations	$	(87,633)	$	(67,504)
Items not involving cash:				
Stock based compensation		15,653		-
Changes in non-cash working capital items:				
Accounts receivable		(1,278)		(677)
Due to related parties		47,850		(102,058)
Accounts payable and accrued liabilities		(316,968)		226,377
		(270,396)		123,642
Net cash provided by (used in) operating activities		(342,376)		56,138
Financing Activities				
Cash received from the sale of subsidiaries		-		11,318
Proceeds from issuance of special warrants		368,469		-
Effects of exchange rate changes		2,439		(56,608)
Change in cash		28,532		10,848
Cash, beginning of the period		11,260		412
Cash, end of the period	$	39,792	$	11,260

See notes to financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Big Sky Petroleum Corporation (the “Company”) was incorporated under the *Canada Business Corporations Act* on February 3, 2006 and, effective July 6, 2009, changed its continuance out of the federal jurisdiction into the British Columbia jurisdiction under the *Business Corporations Act* (British Columbia). The Company traded under the symbol “BSP” on the TSX Venture Exchange (the “TSX-V” or “Exchange”) and on May 26, 2016, the Company’s shares began trading under the symbol “BSP.H” on the NEX Board of the Exchange.

The Company is a junior oil and gas company and has its registered office at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

On August 12, 2018, the Company completed a share consolidation of its common shares on the basis of 5 pre-consolidation common shares for 2 post-consolidation common shares. As a result of the share consolidation, all share and per share amounts have been retrospectively adjusted to reflect the share consolidation.

During the year ended December 31, 2017, the Company disposed of its oil and gas interests through the disposition of its wholly owned subsidiaries (note 4).

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, there are several conditions that may cast significant doubt on the Company’s ability to continue as a going concern, including that, to date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company had an accumulated deficit of $12,002,978 (2017 - $11,915,345) and working capital deficiency of $91,660 as at December 31, 2018 (2017 - $409,763). The Company has no source of operating revenues and its capacity to operate as a going concern in the near-term will likely depend on its ability to continue raising equity financing.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The current market conditions and volatility increase the uncertainty of the Company’s ability to continue as a going concern given the need to both curtail expenditures and raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that current market conditions may impact the ability to source such funds.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out in note 3 have been applied consistently in all material respects. These financial statements, including comparatives, have been prepared on the basis of IFRS standards that are effective on December 31, 2018.

The financial statements of the Company as at December 31, 2018 and 2017 and for the years then ended were approved and authorized for issue by the Board of Directors on April 24, 2019.

(b) New and future accounting pronouncement

At the date of authorization of these financial statements, the IASB and IFRIC have issued the following new and revised standards and interpretations, which are effective for the current and future reporting periods. The Company has performed an assessment of the impact of the new standards and has determined that adoption of these standards will have no significant impact on the Company's financial statements. The new and revised standards applicable to the Company are as follows:

Accounting standards issued and effective for the current period

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Classification and measurement of financial assets:
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- Classification and measurement of financial liabilities:
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss).

2. BASIS OF PREPARATION (Continued)

(b) New and future accounting pronouncement (Continued)

- Impairment of financial assets:
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- Hedge accounting:
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

As at January 1, 2018, the impact of the adoption of IFRS 9 to the Company's financial instruments are as follows:

	Classification	
	Under IAS 39	**Under IFRS 9**
Cash	Fair value through profit or loss ("FVPTL")	FVPTL
Accounts receivable	Loans and receivables – Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities – Amortized cost	Amortized cost
Due to related parties	Other financial liabilities – Amortized cost	Amortized cost

As a result of the adoption of IFRS 9, the Company has changed accounting policy for financial instruments retrospectively. The change did not result in a change in the carrying value of any of the financial instruments on transition date. IFRS 9 does not require restatement of comparative periods. The adoption of IFRS 9 resulted in no impact to the opening Statement of Financial Position or accumulated deficit.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-based Payment*)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company has no cash-settled share-based payments, this has no impact on the financial statements.

2. BASIS OF PREPARATION (Continued)

(b) New and future accounting pronouncement (Continued)

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2018 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

IFRS 16 Leases (effective January 1, 2019)

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position.

(c) Significant accounting judgments and estimates

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impact of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from judgments made, relate to, but are not limited to, the following:

Functional currency

In concluding that the Canadian dollar is the functional currency of the Company, management considered both the funds from financing activities and the currency in which goods and services are paid. The Company chooses to report in US dollars as the presentation currency.

Going concern

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

2. BASIS OF PREPARATION (Continued)

(c) Significant accounting judgments and estimates (Continued)

Income taxes

Income assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. The Company believes that its accruals for tax balances are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. These differences could materially impact net income (loss).

Discontinued operations

Management applies judgement in the determination of whether disposal groups or a cash generating unit represent a component of the entity, the result of which should be recorded in discontinued operations in the statements of comprehensive income.

Share-based payments

The value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The 2017 comparative information of the Company’s Statement of Comprehensive Income (Loss) in these financial statements include the accounts of the Company and its 100% wholly owned subsidiaries, Big Sky Operating LLC and BSP Operating LLC, through August 31, 2017 (note 4).

Intercompany transactions are eliminated in preparing the 2017 comparative information through August 31, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar, and accounts denominated in currencies other than the Canadian dollar have been translated as follows:

- Monetary assets and liabilities, at the exchange rate at the statement of financial position date;
- Non-monetary assets and liabilities, at the historical exchange rates, unless such items are carried at fair value, in which case they are translated at the date when the fair value was determined;
- Shareholders' equity items, at historical exchange rates; and
- Revenue and expense items, at the rate of exchange in effect on the transaction date.

The Company's presentation currency is the US dollar. For presentation purposes, all amounts are translated from the Canadian dollar functional currency to the US dollar presentation currency for each period using the exchange rate at the end of each reporting period for the statement of financial position. Revenues and expenses are translated on the basis of average exchange rates during the year.

Exchange gains and losses arising from translation to the Company's presentation currency are recorded as exchange differences on translation to reporting currency, which is included in other comprehensive income (loss).

(c) Discontinued operations

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company, and which:

- Represent a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statements of comprehensive loss is restated as if the operation had been discontinued from the start of the comparative year presented.

(d) Oil and natural gas properties

The Company capitalizes leasehold acquisition costs and licenses. These costs are accumulated in cost centres by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Oil and natural gas properties (Continued)

Exploration and evaluation expenditures are expensed as incurred, except for expenditures associated with the acquisition of oil and natural gas properties through a business combination or asset acquisition, which are recognized as assets. Costs incurred before acquiring the legal right to explore in a specific area, drilling, geological and geophysical costs, and other operating costs are immediately charged to net income (loss).

Oil and natural gas properties are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped together with developed and producing assets and are tested at an aggregated CGU level. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

The technical feasibility and commercial viability of extracting an oil or natural gas resource is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, oil and natural gas properties attributable to those reserves are tested for impairment and reclassified from oil and natural gas properties to proven oil and natural gas properties.

Capitalized amounts are depleted using the unit-of-production method. The depletion expense per unit of production would be the ratio of the sum of the unamortized historical costs and estimated future development costs to the Company’s proved reserve volumes. Estimation of reserves relies on professional judgment and use of factors that cannot be precisely determined.

(e) Decommissioning obligations

The Company recognizes an estimate of the decommissioning obligation in the financial statements at the time the liability is incurred. The estimated fair value of the decommissioning obligation is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a straight-line basis over the estimated units of production. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The decommissioning obligation can also increase or decrease due to changes in the estimates of the timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the decommissioning obligation are charged against the decommissioning obligation to the extent of the liability recorded.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments

Financial assets

Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in the statement of loss and comprehensive loss.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to retained earnings (deficit) when the financial instrument is derecognized or its fair value substantially decreases.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for assets or liabilities that are not based on observable market data.

(g) Share-based payments

The share option plan allows the Company's directors, management, employees, agents and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of the option award is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company, in addition to the proportionate amount of reserves originally created at the issuance of the stock options or warrants. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance.

The proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. fair market valuation. Under this method, the proceeds are allocated to common shares based on the fair value of the common share at the announcement date of the unit offering and any residual value is allocation to common share purchase warrant

(i) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income (loss).

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period-end date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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

4. SALE OF SUBSIDIARIES

On August 31, 2017, the Company completed the sale of all its wholly owned subsidiaries, along with their related assets and liabilities, to an arm's length private company for $11,318 (Cdn$14,000). As a result of the sale, the Company recognized a gain on sale of subsidiaries of $591,780, which is comprised of the following:

- $60,952 relating to foreign exchange loss on amounts due to parent company held in US dollars; and
- $652,732 gain on sale of subsidiary arising from the derecognition of net liabilities of the subsidiaries of $641,414 plus cash proceeds of $11,318.

As the cash flows related to the operation of the subsidiaries are clearly distinguished, both operationally and geographically, for financial reporting purposes from the rest of the entity, the financial performance within the subsidiaries have been reclassified and presented separately as discontinued operations in the statements of comprehensive income and cash flows.

The reported net income (loss) from discontinued operations is comprised of the following:

		2017
Exploration and evaluation expenses	$	-
Foreign exchange loss		(60,952)
Gain on sale of subsidiaries		652,732
Fair value gain on decommissioning liabilities		-
Net income from discontinued operations	$	591,780

There were no income tax effects related to discontinued operations for year ended December 31, 2017.

The reported cash flows from discontinued operations are as follows:

		2017
Cash provided by (used in) Operating activities		
Net income from discontinued operations	$	591,780
Unrealized income on foreign exchange		60,952
Gain on sale of subsidiaries		(652,732)
Gain on reversal of decommissioning liability		-
Operating cash flows from discontinued operations	$	-

Included in the net income form discontinued operations is the write-off of $312,764 amount due to Joint Participation Agreement Partners for the sale of certain of its oil and gas leasehold interests in Toole County, Montana in 2013 and write-off of an unrecoverable reclamation bond of $25,000 for its Texas Project.

5. SHARE CAPITAL AND RESERVES

(a) Authorized

The Company has authorized share capital of an unlimited number of common shares without par value.

(b) Issued and outstanding

On August 12, 2018, the Company completed a share consolidation of its common shares on the basis of 5 pre-consolidation common shares for 2 post-consolidation common shares. As a result of the share consolidation, all share and per share amounts have been retrospectively adjusted to reflect the share consolidation.

On August 13, 2018, the Company issued 9,999,997 share units on the automatic conversion of special warrants (note 5(c)). Each unit consists of one common share and once common share warrant. Each warrant entitles the holder to acquire one share at a price of CDN$0.05 per share for a period of 12 months from the date of issuance. The Company incurred $12,181 in issuance costs.

The Company did not issue any common shares during the year ended December 31, 2017.

(c) Warrants and special warrants

On August 7, 2018, the Company issued 10,000,000 special warrants at CDN$0.05 per special warrant. Each special warrant will automatically be converted into one unit, without additional consideration, upon the date that is the later of (a) the completion of the Company's share consolidation of its common shares on the basis of 5 pre-consolidation common shares for 2 post-consolidation common shares; and (b) approval of the issuance of the special warrants and its automatic conversion. Each unit consists of one common share and one common share purchase warrant, which entitles the holder to acquire one common share at a price of CDN$0.05 per share for a period of 12 months from the date of issuance. During the year, as a result of the conversion of the special warrants, 9,999,997 warrants were issued with the common shares with an exercise price and weighted average price of $0.05 per share. The warrants entitle the holder to acquire a share of the Company for a period of 12 months from date of issuance. Based on the residual method, no value was assigned to the warrants.

(d) Stock options

The Company has established a stock option plan that is administered by the Board of Directors of the Company with stock options granted to directors, management, employees, management company employees, agents and consultants. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the total number of issued and outstanding shares. All options granted to date, vested immediately upon granting.

Stock option transactions and the number of stock options are summarized as follows:

(Expressed in US dollars, unless otherwise indicated)

5. SHARE CAPITAL AND RESERVES (Continued)

(d) Stock options (Continued)

Expiry date	Exercise Price ($CDN)	December 31, 2016	Expired/ Cancelled	December 31, 2017	Expired/ Cancelled	Granted	December 31, 2018
November 29, 2017	$ 3.00	3,200	(3,200)	-	-	-	-
January 7, 2018	$ 3.00	4,000	-	4,000	(4,000)	-	-
June 22, 2023	$ 0.088	-	-	-	-	240,000	240,000
Options outstanding and exercisable		7,200	(3,200)	4,000	(4,000)	240,000	240,000
Weighted average exercise price ($CDN)		$ 3.00	$ 3.00	$ 3.00	$ 3.00	$ 0.088	$ 0.088

As at December 31, 2018, the weighted average remaining contractual life of the stock options was 4.48 (2017 – 0.02) years. The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

	2018	2017
Dividend yield	**Nil**	N/A
Annualized volatility	**120%**	N/A
Risk-free interest rate	**1.94%**	N/A
Expected life	**5 years**	N/A

Volatility has been calculated based on the historical volatility of the Company.

6. RELATED PARTY TRANSACTIONS AND BALANCES

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

For the year ended December 31, 2018	Short-term benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President and a Director *	$ 51,776	$ -	$ 51,776
Total	$ 51,776	$ -	$ 51,776

For the year ended December 31, 2017	Short-term benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President and a Director *	$ 36,963	$ -	$ 36,963
Total	$ 36,963	$ -	$ 36,963

* Included in accounting and consulting fees in the statements of comprehensive income.

(Expressed in US dollars, unless otherwise indicated)

6. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Due to related parties	Services for	December 31, 2018	December 31, 2017
Company controlled by Chief Executive Officer, President and a Director [(a)]	Rent, accounting and financial services; loan	$ -	$ 1,684
Company controlled by a director	Legal	45,595	23,158
Company controlled by a director	Accounting	8,063	-
Company controlled by a director	Consulting	21,990	7,944
Total		$ 75,648	$ 32,786

(a) In October 2017, the related party entered into two assignment agreements to assign Cdn$441,462 debt receivable from the Company to an arm's length party. As of December 31, 2017, $1,684 was owed to this company for accounting services.

Amounts due to related parties have no specific terms of repayment and are non-interest-bearing.

7. INCOME TAXES
8.

(a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% (US statutory rate of 35%) to income before income taxes. The reasons for the differences are as follows:

	2018	**2017**
Net income (loss)	$ (87,633)	$ 524,276
Statutory income tax rate	27%	26%
Expected income tax expense	(23,661)	136,312
Items not deductible for tax purposes	(2,539)	(153,863)
Temporary differences		(54,316)
Difference in foreign tax rates	4,554	23,376
Unused tax losses and tax offsets not recognized	21,646	70,334
Effect of changes in tax rates		(21,843)
	$ -	$ -

(b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generate sufficient taxable income for the recognition of deferred tax assets.

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2018	**2017**
Non-capital losses	$ 2,226,000	$ 2,138,971
Resource properties	-	45,328
Property, plant and equipment	-	-
	$ -	$ 2,184,299

7. INCOME TAXES (Continued)

Non-capital losses, expiring as follows:

Available to		Total
2026	$	17,000
2027		32,000
2028		89,000
2029		89,000
2030		89,000
2031		689,000
2032		308,000
2033		325,000
2034		184,000
2035		179,000
2036		69,000
2037		68,000
2038		88,000
	$	2,226,000

Upon sale of the subsidiaries, non-capital losses of $5,882,000 are no longer available to the Company.

In addition, the Company has approximately $1.2 million of net capital losses available.

8. FINANCIAL INSTRUMENTS

The fair values of the Company's accounts receivable (net of Goods and Services Tax ("GST") receivable), and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments. The Company's cash is valued based on quoted market prices.

The Company's financial instruments are exposed to certain financial risks, including foreign currency risk, credit risk, liquidity risk and interest risk.

(a) Foreign currency risk

The Company is affected by changes in exchange rates between the Canadian dollar and US dollar, which may adversely affect the Company's financial position, results of operations and cash flows. The Company has net monetary liabilities of approximately Cdn$79,000 (2017 - Cdn$530,000). A 6% change in the absolute rate of exchange in US dollars would affect its net loss by $7,500 (2017 – $31,800).

(b) Credit risk

The Company's cash is held in a Canadian financial institution. Credit risk is managed by using major banks that are high credit quality financial institutions as determined by ratings agencies. The Company's accounts receivable (net of GST receivable) is nominal.

(Expressed in US dollars, unless otherwise indicated)

8. FINANCIAL INSTRUMENTS (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities and amounts due to related parties are due within twelve months of the statement of financial position date.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because they are generally held to maturity. The Company is not exposed to significant interest rate risk.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

December 31, 2018	Level 1	Level 2	Level 3	Total
Accounts receivable	$ 1,862	$ -	$ -	$ 1,862
Cash	$ 39,792	$ -	$ -	$ 39,792

December 31, 2017	Level 1	Level 2	Level 3	Total
Cash	$ 11,260	$ -	$ -	$ 11,260

9. MANAGEMENT OF CAPITAL RISK

The Company's capital is comprised of amounts in shareholders' deficiency. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and exploration of oil and gas properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

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 the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. There were no changes to the Company's approach to capital management during the year ended December 31, 2018 and the Company is not subject to any externally imposed capital requirements.

(Expressed in US dollars, unless otherwise indicated)

10. SEGMENTED INFORMATION

The Company is engaged in one business activity, oil and natural gas exploration. The two key geographical segments were Canada and USA. Subsequent to the sale of the subsidiaries on August 31, 2017, the Company no longer operates in the USA.

Summarized financial information for the geographic segments the Company operates in are as follows:

	Canada	USA	Total
As at December 31, 2018			
Assets			
Accounts receivable	$ 1,862	$ -	$ 1,862
Cash	39,792	-	39,792
	$ 41,654	$ -	$ 41,654
As at December 31, 2017			
Assets			
Accounts receivable	703	-	703
Cash	11,260	-	11,260
	$ 11,963	$ -	$ 11,963
For the year ended December 31, 2018			
Net loss from continuing operations	$ (87,633)	$ -	$ (87,633)
Net income from discontinued operations	$ -		$ -
Capital expenditures	$ -	$ -	$ -
For the year ended December 31, 2017			
Net loss from continuing operations	$ (67,504)	$ -	$ (67,504)
Net income from discontinued operations	$ -	$ 591,780	$ 591,780
Capital expenditures	$ -	$ -	$ -