

Exito Energy II Inc. (formerly Capitalize Acquisition I Corp.)
Financial Statements

December 31, 2015 and December 31, 2014





April 26, 2016

Independent Auditor's Report

To the Shareholders of Exito Energy II Inc.

We have audited the accompanying financial statements of Exito Energy II Inc., which comprise the statements of financial position as at December 31, 2015 and December 31, 2014 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Exito Energy II Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Management's Responsibility

To the Shareholders of Exito II Energy Inc. (the "Corporation"):

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Corporation. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving financial information. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Corporation's external auditors.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

April 26, 2016



Bradley Docherty, President and CEO

Exito Energy II Inc. (formerly Capitalize Acquisition I Corp.)
Statements of Financial Position

In Canadian Dollars	December 31, 2015 \$	December 31, 2014 \$
Assets		
Current assets		
Cash and cash equivalents (note 6)	547,625	586,589
Accounts receivable	2,037	10,314
Total assets	549,662	596,903
 Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	40,067	47,704
Total liabilities	40,067	47,704
 Shareholders' Equity		
Share capital (note 7)	605,906	605,906
Contributed surplus (note 7)	120,472	106,070
Deficit	(216,783)	(162,777)
Total shareholders' equity	509,595	549,199
Total liabilities and shareholders' equity	549,662	596,903

Subsequent event (note 14)

"Brad Docherty" (signed)

Director

"Eli Abergel" (signed)

Director

Exito Energy II Inc. (formerly Capitalize Acquisition I Corp.)
Statements of Comprehensive Loss

In Canadian dollars	For the year ended December 31, 2015 \$	For the year ended December 31, 2014 \$
Expenses		
Business acquisition (note 13)	-	36,561
Office rent and supplies (note 13)	21,083	18,864
Professional fees (note 13)	17,530	6,173
Filing fee	5,700	5,200
Share-based compensation (note 8)	14,402	-
	<u>58,715</u>	<u>66,798</u>
Finance income – interest income	(4,709)	(7,464)
Total comprehensive loss	<u>54,006</u>	<u>59,334</u>
Loss per share (note 9)	0.01	0.01

Exitto Energy II Inc. (formerly Capitalize Acquisition I Corp.)
Statement of Changes in Shareholders' Equity

In Canadian Dollars	Number of shares	Deficit \$	Share Capital \$	Contributed Surplus \$	Total Equity \$
Balance at December 31, 2013	10,000,000	(103,443)	605,906	106,070	608,533
Total comprehensive loss	-	(59,334)	-	-	(59,334)
Balance at December 31, 2014	10,000,000	(162,777)	605,906	106,070	549,199
Share-based payments (<i>note 8</i>)	-	-	-	14,402	14,402
Total comprehensive loss	-	(54,006)	-	-	(54,006)
Balance at December 31, 2015	10,000,000	(216,783)	605,906	120,472	509,595

Exito Energy II Inc. (formerly Capitalize Acquisition I Corp.)
Statements of Cash Flows

In Canadian Dollars	For the year ended December 31, 2015 \$	For the year ended December 31, 2014 \$
Cash flows related to the following activities		
Operating activities		
Net loss for the year	(54,006)	(59,334)
Share-based compensation	14,402	-
	(39,604)	(59,334)
Net change in non-cash working capital relating to operating activities		
Accounts receivable	8,277	(5,952)
Accounts payable and accrued liabilities	(7,637)	38,097
Cash used in operating activities	(38,964)	(27,189)
Increase/(decrease) in cash and cash equivalents	(38,964)	(27,189)
Cash and cash equivalents, beginning of year	586,589	613,778
Cash and cash equivalents, end of year	547,625	586,589
Supplemental cash flow information:		
Interest received	5,649	6,790

The accompanying notes are an integral part of these financial statements

Exito Energy II Inc. (formerly Capitalize Acquisition I Corp.)

Notes to the Financial Statements

For the years ended December 31, 2015 and December 31, 2014
In Canadian Dollars

1. Incorporation and operations

Exito Energy II Inc. (formerly Capitalize Acquisition I Corp.) (the "Corporation") was incorporated under the laws of the Province of Alberta on November 11, 2010 and is based in Calgary, Alberta. The Corporation is classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange") and is listed on the Exchange under the symbol "EXI.P", having commenced trading on May 8, 2013. The principal business of the Corporation is to identify and evaluate assets or businesses with a view to potentially acquire them or an interest therein by completing a purchase transaction, by exercising an option or by any concomitant transaction. The purpose of such an acquisition will be to satisfy the related conditions of a qualifying transaction under the Exchange rules within two years of becoming a CPC (May 8, 2015). The address of the head office of the Corporation is 1350, 734 – 7th Ave S.W. Calgary, Alberta.

The financial statements of the Corporation for the year ended December 31, 2015 were authorized for issue in accordance with a resolution of the Board of Directors on April 26, 2016.

In order to complete an acquisition or participate in an operation, additional funding may be required. The ability of the Corporation to fund its potential future operations and commitments is dependent upon the ability of the Corporation to complete a qualifying transaction.

The Corporation entered into a letter of intent with Millennium Stimulation Services Ltd. ("Millennium") dated November 13, 2014 (the "Letter Agreement"), pursuant to which the Corporation intends to acquire all of the issued and outstanding common shares of Millennium (the "Millennium Shares"), to be effected by way of an amalgamation pursuant to the *Business Corporations Act* (Alberta). Following various amendments, the Letter Agreement was valid until February 13, 2016 (see "Note 14 Subsequent Event") and the business combination was subject to approval of the Exchange. On February 16, 2016, the Corporation received an extension to its deadline to complete a qualifying transaction (see "Note 14 Subsequent event").

There is no assurance that the Corporation will identify a business or asset that warrants acquisition or participation within the time limitations permissible under the policies of the Exchange, at which time the Exchange may de-list the Corporation's shares from trading. In May 2015, the shares of the Corporation were suspended from trading on the Exchange.

2. Basis of preparation

Statement of compliance

The financial statements for the year ended December 31, 2015 and December 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The policies applied in these annual financial statements have been prepared in accordance with IFRS issued and outstanding as of the date the financial statements were authorized by the Board of Directors.

Basis of preparation

These financial statements have been prepared using historical costs and fair values of certain items, as detailed in the accounting policies set out in Note 3 below. These policies have been applied consistently to all periods presented in these financial statements.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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Notes to the Financial Statements

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In Canadian Dollars

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Financial instruments

The Corporation's financial instruments consist of the following:

i. Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

ii. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

iii. Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

iv. Other Financial liabilities at amortized cost

Other financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest rate method, less any impairment loss.

v. Loans and receivables

Loans and receivables, are measured at amortized cost using the effective interest method, less any impairment loss. Loans and receivables include accounts receivable and cash and cash equivalents.

Share-based payments

The Corporation issues equity-settled share-based payments for services it receives from directors, officers, employees and consultants in consideration for equity instruments of the Corporation.

Where equity-settled share options are granted to employees, directors or officers the fair value of the options at the date of the grant is charged to the statement of comprehensive loss. The Corporation uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. No expense is recognized for awards that do not ultimately vest.

Where equity-settled share options are granted to non-employees they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless they are related to the issuance of shares.

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Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured using the Black-Scholes pricing model.

All equity-settled share-based payments are reflected in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is reclassified to share capital.

Share capital

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

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment in respect of previous periods.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Basic and diluted loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares applying the treasury stock method.

4. Future accounting pronouncements

The following standards and amendments have not been adopted as they apply to future periods and may result in future changes to existing accounting policies and disclosures. The adoption of these amendments is not expected to have a material impact on the Corporation's financial statements.

- i. IFRS 9, *Financial Instruments* - The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the standard.
- ii. IFRS 15, *Revenue from Contracts with Customers* - The new standard was issued in May 2013 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard provides clarification

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for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurements retrospectively or using a modified transaction approach for fiscal years beginning on or after January 1, 2017 with earlier adoption permitted. The Corporation is in the process of assessing the impact of this new standard.

5. Significant accounting estimates and assumptions

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. Deferred income tax assets are recognized to the extent it is more likely than not to be realized.

Share based payments

The amounts disclosed relating to fair values of stock options issued are based on management's estimates of expected stock price volatility, expected lives of the options, risk-free interest rates and other assumptions. By their nature these estimates are subject to uncertainty and the effect from changes in such estimates in future years could be material.

6. Cash and cash equivalents

The proceeds raised from the issue of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that the lessor of up to 30% of the gross proceeds or \$210,000 may be used to cover prescribed costs of issuing common shares or administrative and general expenses of the Corporation. These restrictions apply until the completion of a Qualifying Transaction by the Corporation as defined under the policies of the Exchange.

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Notes to the Financial Statements

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7. Share capital

Authorized

The Corporation has authorized an unlimited number of voting common shares and an unlimited number of preferred shares at no par value.

Issued and outstanding common shares

	Number of Shares	Amount \$
At December 31, 2013	10,000,000	605,906
As at December 31, 2014	10,000,000	605,906
As at December 31, 2015	10,000,000	605,906

- (1) On January 16, 2013, the Corporation issued 5,000,000 shares to third parties and Directors of the Corporation at a price of \$0.05 per share for gross proceeds of \$250,000. Upon closing of the IPO these shares were deposited into escrow and will be released from escrow over a period of up to three years from the date that the Corporation completes a qualifying transaction. If the issuer resulting from the completion of a qualifying transaction meets the Exchange's Tier 1 initial listing requirements then the period for which these shares will be escrowed will be shortened to 18 months from the date of closing of the qualifying transaction. If the corporation fails to complete a qualifying transaction within 24 months of the closing of the IPO then all escrowed shares held by non-arm's length parties may be cancelled or discounted to create an average purchase price for these escrowed shares equal to the IPO subscription price per share.
- (2) On May 7, 2013 the Corporation closed an initial public offering ("IPO") of 5,000,000 common shares at \$0.10 per share for gross proceeds of \$500,000. Share issue costs of \$105,138 were paid related to the initial public offering. The fair value of the agent options granted as a result of the initial public offering (Note 7), of \$26,308 were recorded as share issue costs.

Contributed surplus

	Amount \$
At December 31, 2013	106,070
As at December 31, 2014	106,070
Share-based compensation expense	14,402
As at December 31, 2015	120,472

8. Share-based Payments

The Corporation has adopted a stock option plan (the "Plan") which provides that the Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers and employees of the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares.

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Vesting terms will be determined at the time of grant by the Board of Directors.

A summary of the stock option plan transactions since the Corporation's inception are as follows:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2013	1,000,000	\$ 0.10
Outstanding at December 31, 2014	1,000,000	\$ 0.10
Outstanding at December 31, 2015	1,000,000	\$ 0.10

All options outstanding were issued on May 13, 2013, vested upon issuance and have a weighted average remaining contractual life of 2.4 years.

The fair value of each share-based payment transaction was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0%
Grant date share price	\$0.10
Exercise price	\$0.10
Expected volatility	100%
Forfeitures	0%
Risk-free interest rate	1.57%
Fair value at grant date	\$0.05

The Corporation's stock has less than two years of trading history; therefore the Corporation has used the historical volatilities of certain members of its peer group for input into the Black-Scholes Option Pricing Model.

During the year ended December 31, 2015 the Corporation recorded share-based compensation expense for options granted of \$ nil (\$nil December 31, 2014).

Agent compensation options

The Corporation issued agent options as compensation to agents to purchase common shares in conjunction with the IPO.

A summary of agent option transactions are as follows:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2013	500,000	\$ 0.10
Outstanding at December 31, 2014	500,000	0.10
Expired	(500,000)	0.10
Options granted to agent	500,000	0.10
Outstanding at December 31, 2015	500,000	\$ 0.10

As of July 14, 2015, the Exchange consented to the extension in the expiry date of the agents' options. However, since the previous options had expired the Corporation issued new options with the original terms, other than the expiry date. The new expiry date is the earliest of: delisting of the Corporation's shares, transfer to NEX Exchange (a separate board of the Exchange) upon failing to complete a qualifying transaction within the time frame prescribed by the Exchange or issuance of the final bulletin for acceptance of a qualifying transaction. Management

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estimated the expiry date to be February 16, 2016, the issuance of the final bulletin for acceptance of a qualifying transaction. The exercise price remains at \$0.10 per common share.

All options outstanding were issued on July 14, 2015, vested upon issuance and have a weighted average remaining contractual life of 0.1 years.

The fair value of each share-based transaction was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0%
Grant date share price	\$0.10
Exercise price	\$0.10
Expected volatility	96%
Forfeitures	0%
Risk-free interest rate	.6%
<u>Fair value at grant date</u>	<u>\$0.0288</u>

The Corporation's stock has limited trading history; therefore the Corporation has used the historical volatilities of certain members of its peer group for input into the Black-Scholes Option Pricing Model.

During the year ended December 31, 2015 the Corporation recorded share-based compensation expense for options granted of \$14,402 (\$nil December 31, 2014).

9. Loss per share

	For the Year ended December 31, 2015	For the year ended December 31, 2014
Weighted average common shares outstanding	10,000,000	10,000,000
Diluted common shares outstanding	10,000,000	10,000,000

The basic and diluted loss per share amounts are the same, as the stock options and agent options were excluded from the dilution calculation, as they were anti-dilutive.

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10. Income Taxes

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rates of 26.0% (2014 – 25.0%). The increase in the statutory tax rate is due to an increase in the general corporate income tax rate in Alberta from 10% to 12% substantially enacted on June 18, 2015:

	For the year ended December 31, 2015	For the year ended December 31, 2014
	\$	\$
Loss for the period before tax	54,006	59,334
Statutory tax rate	26.0%	25.0%
Expected income tax recovery	14,042	14,834
Permanent differences:		
Share-based compensation	(3,745)	-
Change in enacted rate	4,512	-
Change in unrecognized temporary difference	(14,809)	(14,834)
Income tax expense	-	-

The tax benefits of the following temporary differences have not been recognized for accounting purposes.

As at	December 31, 2015	December 31, 2014
	\$	\$
Share issue costs	12,721	17,668
Loss carry forwards	53,539	33,783
	66,260	51,451

As at December 31, 2015 the Corporation has a non-capital loss carry-forward of \$198,292 available to reduce future years' income for tax purposes. This non-capital loss carry-forward has not been recognized in the financial statements and will begin to expire in 2031.

11. Financial instruments and risk management

Fair value of financial instruments

As at December 31, 2015, the Corporation's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their short-term nature.

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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The Corporation has no financial instruments recorded at fair value through profit and loss.

Risk management

The Corporation is exposed in varying degrees to a variety of financial instrument related risk.

- Credit risk - Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. Credit risk primarily arises from the Corporation's cash and receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date.
- Liquidity risk - Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations and commitments as they become due. The Corporation manages liquidity through the management of its capital structure, as outlined in note 12 of the annual financial statements for the year ended December 31, 2014. The Corporation's liquidity risk arises as a result of its accounts payable and accrued liabilities.
- Interest rate risk - Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The effect of interest rates increasing by 1%, with all other variables held constant, would have caused the corporation comprehensive loss to decrease by \$5,048.
- Currency risk - The Corporation does not have any material exposures to financial instruments denominated in currencies other than the Canadian dollar.

12. Capital disclosures

The Corporation's capital as at December 31, 2015 consists of \$547,625 (December 31, 2014 - \$586,589) cash and cash equivalents and \$605,906 (December 31, 2014 - \$605,906) share capital. The Corporation's objective for managing capital is to maintain sufficient capital to identify, evaluate and complete a Qualifying Transaction.

The Corporation sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Corporation's objectives when managing capital are:

- i. to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and,
- ii. to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Corporation is restricted to spending \$210,000 of its capital on corporate costs that do not relate to pursuing a Qualifying Transaction, such as general and administrative expenses relating to being listed on the Exchange and issuing shares. As of December 31, 2015, Exito has spent \$134,068 (2014 -\$94,463) that fall within this spending restriction.

13. Related party transactions

Pursuant to an Administration Services Agreement, Exito pays \$1,429 per month to a corporation wholly owned by two directors of the Corporation for the use of office space, reception and boardrooms, equipment (including computers, telephones, vehicles, etc.), printing and all other necessary administrative functions and services required to permit Exito to review and evaluate potential Qualifying Transactions. During the year ended December 31, 2015, \$17,143 (\$17,143 – year ended December 31, 2014) was paid in accordance with this arrangement. There was \$nil in accounts payable and accrued liabilities at December 31, 2015 and 2014.

During the year ended December 31, 2015 \$nil (\$1,900 – year ended December 31, 2014) in professional fees were incurred from a partnership, for accounting services relating to the preparation of financial statements, in which a Director of the Corporation has family relationships. It was determined in the fourth quarter of 2014 that these fees were not in compliance with the Exchange policies relating to Capital Pool Companies, so no additional transactions occurred in 2015 with this party. As at December 31, 2015 there was \$nil (\$nil – December 31, 2014)

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In Canadian Dollars

in accounts payable and in accounts receivable and as at December 31, 2015 there was \$nil (\$7,665 – December 31, 2014) in accounts receivable relating to this arrangement.

During the year ended December 31, 2015, \$295 (\$39,234 - December 31, 2014) in legal fees and disbursements were incurred and was paid to a law firm, for legal services, in which a Director of the Corporation is a Partner. In the current year \$295 (\$2,673 – December 31, 2014) of the legal fees were recorded as professional fees, and \$nil (\$36,561 – December 31, 2014) were recorded in Business Acquisition for the due diligence process associated with the proposed qualifying transaction with Millennium. There was \$31,208 in accounts payable and accrued liabilities at December 31, 2015 (\$38,789 at December 31, 2014) for these professional fees.

14. Subsequent event

On February 16, 2016, the Corporation's deadline for completing a qualifying transaction was extended by the TSXV until May 13, 2016. If a qualifying transaction is not completed by this date the Corporation may be de-listed and/or transferred to the NEX Exchange.

On March 29, 2016, the Corporation entered a non-binding term sheet (the "Term Sheet") with MagneticNorth Partners, Inc. ("Magnetic"). The Term Sheet contemplates the acquisition of all of the issued and outstanding common shares of Magnetic by the Corporation as well as various changes to the Corporation's management team and board of directors. The transaction contemplated by the Term Sheet remains subject to numerous conditions, including but not limited to: (i) a more formal letter of intent and a definitive agreement being entered between the Corporation and Magnetic; (ii) approval of the Corporation's shareholders; and (iii) approval of the TSXV.

On April 13, 2016, the Letter Agreement with Millennium expired.