

**WESCAN ENERGY CORP.**  
**CONDENSED INTERIM**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**SECOND QUARTER REPORT**  
**For the three and six months ended**  
**September 30, 2017**

(Expressed in Canadian Dollars)

(Unaudited)

**NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of Management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**WesCan Energy Corp.**  
**Condensed Interim Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars – unaudited)

	September 30, 2017	March 31, 2017
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	303,922	241,977
Trade and other receivables	148,019	190,428
Prepaid expenses and deposits	4,782	14,762
<b>Total current assets</b>	<b>456,723</b>	<b>447,167</b>
Non-current assets		
Oil and gas properties (Note 4)	6,851,055	7,134,341
<b>Total non-current assets</b>	<b>6,851,055</b>	<b>7,134,341</b>
<b>TOTAL ASSETS</b>	<b>7,307,778</b>	<b>7,581,508</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade and other payables	744,214	758,270
Convertible loans payable (Note 5)	1,121,205	1,325,225
Current portion of decommissioning provision (Note 6)	60,448	60,448
<b>Total current liabilities</b>	<b>1,925,867</b>	<b>2,143,943</b>
Non-current liabilities		
Decommissioning provision (Note 6)	1,428,088	1,412,088
<b>Total liabilities</b>	<b>3,353,955</b>	<b>3,556,031</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	13,120,114	12,899,689
Equity reserves (Note 7)	1,538,240	1,538,240
Deficit	(10,704,531)	(10,412,452)
<b>Total shareholders' equity</b>	<b>3,953,823</b>	<b>4,025,477</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>7,307,778</b>	<b>7,581,508</b>

**Approved and authorized for issue on behalf of the Board of Directors on November 23, 2017:**

**“Greg T. Busby”**  
Greg T. Busby, Director

**“John H. Cassels”**  
John H. Cassels, Chief Financial Officer

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

**WesCan Energy Corp.**  
**Condensed Interim Consolidated Statements of Comprehensive Loss**  
**For the three and six months ended**  
(Expressed in Canadian Dollars – unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2017 \$	2016 \$	2017 \$	2016 \$
<b>REVENUE</b>				
Petroleum and natural gas sales	391,578	387,599	798,507	743,893
Less: royalties	(42,844)	(44,058)	(87,349)	(81,795)
	<b>348,734</b>	<b>343,541</b>	<b>711,158</b>	<b>662,098</b>
<b>EXPENSES</b>				
Operating costs	233,911	180,154	427,959	391,876
Depletion and accretion	157,837	175,966	301,189	329,921
General and administrative	118,517	108,255	258,487	208,049
	<b>510,265</b>	<b>464,375</b>	<b>987,635</b>	<b>929,846</b>
<b>Net loss from operating activities</b>	<b>(161,531)</b>	<b>(120,834)</b>	<b>(276,477)</b>	<b>(267,748)</b>
<b>Other income (expenses)</b>				
Finance and Interest expense	(36)	(2,705)	(15,602)	(5,359)
<b>Net loss and comprehensive loss</b>	<b>(161,567)</b>	<b>(123,539)</b>	<b>(292,079)</b>	<b>(273,107)</b>
Basic and diluted loss per share (note 7 (f))	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Weighted average number of common shares outstanding	23,219,465	21,753,991	23,219,465	21,753,991

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**WesCan Energy Corp.**  
**Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)**  
**For the three and six months ended**  
(Expressed in Canadian Dollars – unaudited)

**September 30, 2017**

	Share Capital		Equity Reserves	Deficit	Total
	Number of Shares	Amount \$			
<b>Balance at March 31, 2017</b>	21,753,991	12,899,689	1,538,240	(10,412,452)	4,025,477
Share issue for debt (Note 7)	2,939,000	220,425	-	-	220,425
Net loss for the period	-	-	-	(292,079)	(292,079)
<b>Balance at September 30, 2017</b>	24,692,991	13,120,114	1,538,240	(10,704,531)	3,953,823

**September 30, 2016**

	Share Capital		Equity Reserves	Deficit	Total
	Number of Shares	Amount \$			
<b>Balance at March 31, 2016</b>	21,753,991	12,899,689	1,538,240	(12,014,148)	2,423,781
Net loss for the period	-	-	-	(273,107)	(273,107)
<b>Balance at September 30, 2016</b>	21,753,991	12,899,689	1,538,240	(12,287,255)	2,150,674

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

**WesCan Energy Corp.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the three and six months ended**  
(Expressed in Canadian Dollars – unaudited)

	Three Months Ended		Six Months Ended	
	September 30		September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(161,567)	(123,539)	(292,079)	(273,107)
<b>Non-cash items:</b>				
Depletion	128,000	144,882	241,000	271,652
Depreciation	21,837	23,269	44,189	43,136
Accretion	8,000	7,815	16,000	15,630
Interest expense	36	2,705	15,602	5,359
	(3,694)	55,132	24,712	62,670
<b>Change in non-cash working capital items:</b>				
Increase in trade and other receivables	16,602	7,302	42,409	(3,006)
Increase in prepaid expenses and deposit	2,390	2,175	9,980	9,075
Increase (decrease) in trade and other payables	(38,901)	(42,290)	(63,114)	(129,431)
<b>Net cash provided by (used in) operating activities</b>	<b>(23,603)</b>	<b>22,319</b>	<b>13,987</b>	<b>(60,692)</b>
<b>Investing activities</b>				
Purchase of equipment	-	-	(1,903)	-
Expenditures on oil and gas properties	-	(18,559)	-	(30,063)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(18,559)</b>	<b>(1,903)</b>	<b>(30,063)</b>
<b>Finance activities</b>				
Shares issued for debt (Note 8)	220,425	-	220,425	-
Loans received, net of repayments	(182,900)	-	(204,020)	-
Advances from (payments to) related parties	33,456	10,930	33,456	25,826
<b>Net cash provided by financing activities</b>	<b>70,981</b>	<b>10,930</b>	<b>49,861</b>	<b>25,826</b>
<b>Change in cash and cash equivalents</b>	<b>47,378</b>	<b>14,690</b>	<b>61,945</b>	<b>(64,929)</b>
Cash and cash equivalents, beginning of period	256,544	175,783	241,977	255,402
<b>Cash and cash equivalents, end of period</b>	<b>303,922</b>	<b>190,473</b>	<b>303,922</b>	<b>190,473</b>

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

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended March 31, 2017 and 2016**  
**(Expressed in Canadian Dollars)**

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**1. REPORTING ENTITY AND GOING CONCERN**

**Reporting entity**

WesCan Energy Corp. (“WesCan” or the “Company”) changed its name from Great Pacific International Inc. effective October 4, 2012. WesCan was incorporated on November 4, 1993 under the Business Corporations Act (Alberta), Canada. WesCan is a junior public resource company in the business of oil and gas exploration, development and production with oil and gas operations and property interests in Alberta, Canada and Texas, U.S.A. The common shares of WesCan trade on the TSX Venture Exchange (“TSX-V”) under the symbol WCE. The Company’s registered office and mailing address is, Suite 2500, 520 – 5th Avenue S.W., Calgary, Alberta T2P 3R7.

**Going concern**

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning that it will continue in operation for the foreseeable future and it will be able to realize assets and discharge liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

At September 30, 2017 the Company has a working capital deficiency of \$1,469,144 and an accumulated deficit of \$10,704,531 since inception. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Accordingly, external financing will be required in order for the Company to continue as a going concern. In order to continue as a going concern, meet property payment, participation and lease obligations, discharge all liabilities, and meet all commitments the Company will need to raise additional funds through equity financing during the next fiscal year.

Furthermore, the Company will require additional financing to carry out the petroleum exploration and development required to offset production declines, increase oil and gas reserves and achieve a self-sustaining level of revenue. Management is actively pursuing new financings, however, there can be no assurance that it will be able to raise sufficient funds on acceptable terms. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate.

**2. BASIS OF PRESENTATION**

a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved for issuance by the Board of Directors on November 23, 2017.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for share-based payment transactions and financial instruments, which are measured at fair value.

c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

d) Significant accounting estimates and judgments:

#### **BASIS OF PRESENTATION (Cont'd)**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### **3. RECENT ACCOUNTING PRONOUNCEMENTS**

There were no new or revised accounting standards applicable to the Company scheduled for mandatory adoption on April 1, 2015, and thus no standards were adopted in the current year.

#### **New accounting standards issued but not yet effective**

The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements:

##### *New accounting standards to be adopted April 1, 2016*

**IFRS 10, Consolidated Financial Statements:** The amendments to IFRS 10 require a full gain or loss to be recognized when a transaction involves a business (whether it is housed in a subsidiary or not), while a partial gain or loss would be recognized when a transaction involves assets that do not constitute a business, even if the assets are housed in a subsidiary. The amendments are effective for transactions occurring in annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact the final standard may have on its consolidated financial statements.

##### *New accounting standards to be adopted April 1, 2018*

**IFRS 15, Revenue from Contracts with Customers:** In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* which supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

**IFRS 9, Financial Instruments:** The IASB intends to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 which is intended to reduce the complexity in the classification and measurement of financial instruments.

##### *New accounting standards to be adopted April 1, 2019*

**IFRS 16, Leases:** IFRS 16 was issued on January 13, 2016, and will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The Company is currently evaluating the impact the final standard may have on its financial statements.

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended March 31, 2017 and 2016**  
**(Expressed in Canadian Dollars)**

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**4. OIL AND GAS PROPERTIES**

At March 31, 2017, the Company recorded a reversal of impairment of the oil and gas properties in the amount of \$1,515,071. The reversal of impairment resulted from a stabilization in the market prices for crude oil and gas during the year. The recoverable amount of the CGU was determined using a value in use approach based on the 2017 year-end reserves report prepared by an independent engineer using a pre-tax discount rate of 15% for proved and probable reserves.

	Total
<b>Cost</b>	<b>\$</b>
As at March 31, 2016	8,354,653
Additions	29,566
Change in decommissioning liabilities (Note 9)	(178,055)
As at March 31, 2017	8,206,164
<b>As at September 30, 2017</b>	<b>8,206,164</b>

	Total
<b>Depletion, depreciation and impairment</b>	<b>\$</b>
As at March 31, 2016	(2,041,638)
Depletion and depreciation	(545,256)
Reversal of impairment	1,515,071
As at March 31, 2017	(1,071,823)
Depletion and depreciation	(283,286)
<b>As at September 30, 2017</b>	<b>(1,355,109)</b>

	Total
<b>Net book value</b>	<b>\$</b>
As at March 31, 2016	6,313,015
As at March 31, 2017	7,134,341
<b>As at September 30, 2017</b>	<b>6,851,055</b>

**5. LOANS PAYABLE AND CONVERTIBLE LOANS PAYABLE**

At March 31, 2017, the Company has short-term convertible loans payable to unrelated parties in the amount of \$1,121,205 (2016 – \$1,325,225). These loans are due on demand, bear interest up to 10% per annum and are unsecured. The conversion of loans depends on terms of a future private placement, which has not yet been determined. As a result, the Company is unable to estimate the allocation of the value between the debt and equity components. No value is ascribed to the equity component of these convertible loans.

**6. DECOMMISSIONING PROVISION**

The following table presents the reconciliation of the opening and closing aggregate carrying amounts of the decommissioning provision associated with the Company's oil and gas properties:

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**(Expressed in Canadian Dollars)**

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**DECOMMISSIONING PROVISION (Cont'd)**

	September 30, 2017	March 31, 2017
	\$	\$
Balance, beginning of the year	1,472,536	1,619,331
Accretion	16,000	31,260
Change in estimates	-	(178,055)
Balance, end of year	1,488,536	1,472,536
Less: current portion	(60,448)	(60,448)
<b>Long-term portion</b>	<b>1,428,088</b>	<b>1,412,088</b>

During the year ended March 31, 2016, the Company acquired a property in the Provost region of Alberta and assumed a decommissioning liability in amount of \$178,222 upon acquisition. At the time of acquisition, the fair value of the decommissioning liability was valued using a discount rate of 15% and inflation rate of 1.88% (see Note 4). The change of estimate in decommissioning liability of \$1,248,816 was a result of remeasurement of the liability subsequent to the acquisition.

The present value of the decommissioning obligation of \$1,472,536 (2016 - \$1,619,331) was calculated using an average risk-free rate of 2.46% (2016 - 2.09%) and inflation rate of 1.78% (2016 - 1.88%). The weighted average life of wells has been estimated at approximately 25 years (2016 - 17 years). At March 31, 2017, the undiscounted value of the obligation is \$1,935,236 (2016 - \$1,886,929). Reclamation activities are expected to occur between 2017 and 2042.

**7. SHARE CAPITAL**

Shares authorized, issued and outstanding at September 30, 2017 are as follows:

**a) Authorized**

An unlimited number of common shares without par value  
An unlimited number of preferred shares without par value

**b) Issued**

	Number of common shares	Amount \$
<b>Balance, March 31, 2017</b>	21,753,991	12,899,689
Shares issued for debt settlement	2,939,000	220,425
	-	-
<b>Balance at September 30, 2017</b>	<b>24,692,991</b>	<b>13,120,114</b>

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**(Expressed in Canadian Dollars)**

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**SHARE CAPITAL (Cont'd)**

**c) Equity reserves**

Equity reserve items are recognized as share-based payment expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

**d) Share Purchase Warrants**

A summary of share purchase warrants issued and exercised during the period ended September 30, 2017 and 2016 is as follows:

	September 30, 2017		March 31, 2017	
	Number of	Weighted	Number of	Weighted
	warrants	Average	warrants	Average
		Exercise Price		Exercise Price
		per warrant \$		per warrant \$
Balance, beginning of year	4,166,667	0.10	4,166,667	0.10
Expired	(4,166,667)	0.10	(4,166,667)	0.10
<b>Balance, outstanding and exercisable, end of period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**e) Stock options**

The Company has established a stock option plan under which it may grant stock options totaling in aggregate up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to officers, directors, regular employees and persons providing investor-relations or consulting services up to a limit of 5% and 2% respectively of the Company's total number of issued and outstanding shares per year. The option price must be greater or equal to the discounted market price on the grant date and the option expiry date cannot exceed 10 years from the grant date. The stock options vest immediately on the date of the grant or over a period of time as determined by the Board of Directors.

A summary of share purchase options cancelled, granted and exercised during the period ended September 30, 2017 and 2016 is as follows:

	September 30, 2017		March 31, 2017	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
		Exercise Price		Exercise Price
		\$		\$
Balance, beginning of year	1,300,000	0.06	1,300,000	0.06
Expired	-	-	-	-
<b>Balance, end of period</b>	<b>1,300,000</b>	<b>0.06</b>	<b>1,300,000</b>	<b>0.06</b>

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended March 31, 2017 and 2016**  
**(Expressed in Canadian Dollars)**

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**SHARE CAPITAL (Cont'd)**

A summary of stock options outstanding and exercisable at September 30, 2017 is as follows:

Exercise Price	Date of Grant	Expiry Date	Outstanding	Exercisable	Weighted Average Remaining Life
\$ 0.06	October 24, 2013	October 24, 2018	1,300,000	1,300,000	1.06

**f) Per share data**

The diluted earnings per share calculation include the impact of all warrants and stock options outstanding during the period. At September 30, 2017 and 2016, all warrants and stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive.

**g) Shares for Debt Settlements**

On August 23, 2017, the Company completed shares for debt settlements issuing 2,939,000 common shares with an estimated fair value of \$220,425.

**8. FINANCIAL INSTRUMENTS**

The Company's financial instruments are exposed to certain financial risks, including credit risk, capital market risk and liquidity risk, interest rate risk, commodity price risk and foreign exchange risk.

Financial instruments, consisting of trade and other receivables, trade and other payables, balances payable to related parties and former related parties, convertible loans payable, and loans payable, are recorded at amortized cost. Cash and cash equivalents are recorded at fair value. All of the fair value items are transacted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy as following:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assets measured at fair value on a recurring basis were presented on the Company's consolidated statement of financial position as of September 30, 2017 are as follows:

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended March 31, 2017 and 2016**  
**(Expressed in Canadian Dollars)**

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**FINANCIAL INSTRUMENTS (Cont'd)**

	Balance at September 30, 2017	Quoted Prices in Active Markets For Identical Instruments (Level 1) \$	Significant Other Observable Inputs (Level 2) \$	Significant Unobservable Inputs (Level 3) \$	Total \$
<b>Assets:</b>					
<b>Cash and cash equivalents</b>	303,922	303,922	-	-	303,922

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is attributable to cash and cash equivalents and trade and other receivables. Cash and cash equivalents are held in demand accounts at a Canadian chartered bank. The Company does not believe it is subject to any significant counterparty risk with respect to cash and cash equivalents.

Trade receivables typically arise from normal joint operating arrangements governing the Company's producing oil and gas properties, and from cost-recovery billings. Credit valuations are performed on a regular basis and the consolidated financial statements take into account any requirement for an allowance for bad debts.

The carrying amount of trade and other receivables and cash and cash equivalents represents the maximum credit exposure. The Company has an allowance for doubtful accounts of \$10,160 as at September 30, 2017 (2016 – \$10,160).

Capital market risk and liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The

Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company aims to ensure that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. The Company faces material liquidity risk in that it has approximately \$650,000 in accounts payable and payable to related parties which are overdue at September 30, 2017, a working capital deficiency of \$1,469,139 and insufficient cash on hand to satisfy its debts should they be demanded (see Note 1).

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Contractual undiscounted cash flow requirements for contractual obligations as at September 30, 2017 are due as follows:

**WesCan Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**(Expressed in Canadian Dollars)**

	Due in 1-3 months \$	Due in 4-12 months \$	Due in 1-2 years \$	Due in >2 years \$	Total \$
Accounts payable and accrued liabilities	650,353	-	-	-	650,353
Payable to related parties	93,856	-	-	-	93,856
Convertible loans payable	1,121,205	-	-	-	1,121,205
	<b>1,865,414</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,865,414</b>

**FINANCIAL INSTRUMENTS (Cont'd)**

Interest rate risk

The Company's loans payable bear interest at a fixed rate. The Company does not believe its overall exposure to interest rate risk is significant and a 1% change in the interest rate would have an insignificant effect on net loss and comprehensive loss.

Commodity price risk

The Company is exposed to material oil and gas commodity price risk. A relative decrease in the price of oil and gas would reduce the Company's cash flows, reduce the realizable market value of the Company's oil and gas assets, reduce the Company's economic reserves, and make it more difficult for the Company to raise the equity capital required to meet its commitments and carry out its development-stage business plans. Management has assessed that the Company's degree of exposure to commodity price risk is material, but consistent with oil and gas business operations.

The Company's operational results and financial position are materially impacted by global financial and commodity market volatility over which it has no control. The following sensitivity analysis is suggestive of ways in which the financial results of the Company may reasonably be expected to be directly impacted by volatility in those markets:

- (i) The Company is not exposed to significant foreign currency risk on its US dollar denominated assets and financial liabilities. At September 30, 2017, the Canadian dollar cost of paying the Company's US dollar denominated liabilities and property payment commitments would increase by approximately \$nil with a 1% increase in the value of the US dollar relative to the Canadian dollar.
- (ii) Oil and gas revenues would not be significantly impacted by changes in oil and natural gas prices. As at September 30, 2017 for a 1% increase/decrease in the price of oil and gas, revenue would increase/decrease by approximately \$3,900 per quarter based upon September 2017 prices and volumes.

Commodity price risk affects the Company beyond its impact on realized revenue. In particular, the Company's future ability to raise capital for development stage activities is affected by, among many other factors, the price of oil and gas. Furthermore, changes in commodity prices will also affect the price of oil and gas leases, as well as exploration and drilling services and operating costs. Changes in oil and gas prices will also determine the Company's ultimate recoverable reserves.

Foreign exchange risk

The Company currently generates approximately 0.3% of its gross revenue from a natural gas well in the USA with a carrying value of \$1,084. Oil and gas tend to be priced in US dollars therefore a decrease in the value of the US dollar would have an immaterial impact on the results of operations.

## **9. CAPITAL MANAGEMENT**

The primary capital management objective of the Company is to ensure adequate working capital is available to fund both the board-approved business development plans (i.e. oil and gas exploration and development), and the working capital requirements of each annual operating cycle, while also seeking to minimize the risk-adjusted cost of capital.

Capital is raised and retained for the purposes and to the extent necessary to fund exploration, development and corporate overhead costs, subject to the availability of financing on acceptable terms. Given its objectives, the Company determines the amount of capital to be raised and retained based on the scope of its planned exploration activities and management's assessment of the expected availability of acceptably priced capital in future periods.

The Company defines capital as shareholders' equity. As the Company's major asset class – oil and gas properties without significant production – is highly illiquid, requiring significant additional expenditures to be fully monetized, and as the Company is not yet earning net income from oil and gas operations, management of externally financed working capital is, by necessity, a major function of the Company's capital management program. The chief source of working capital is equity financing obtained through the sale of common shares and share purchase warrants, and the exercise of warrants and options. The Company from time to time receives loans from related and unrelated parties and trade credit, but such financial instruments are typically only supplementary to equity financings. In any case, the Company does not consider debt to be a sustainable source of capital, as in the absence of positive cash flows from operations; any debt obtained must be retired with funds raised through equity financing.

The Company's capital management plan seeks to ensure adequate resources are available to fund its activities through the balance of the current fiscal year. A significant measure used in assessing capital adequacy is thus the expected number of days of operations that can be funded from current working capital. Capital levels are deemed sufficient if they can fund the balance of the annual exploration season and development goals and fund corporate overhead expenses in the near term. The Company lacks sufficient capital to carry out development or fund its corporate overhead expenses through the year ended March 31, 2017. Management must seek one or more equity financings to finance activities in the future periods. Additional capital raised will be invested primarily in oil and gas exploration and development activities.

Financing, and thus capital spending on exploration, will generally be limited to the extent that capital is available on acceptable terms. The acceptability of financing terms is generally determined by reference to the prevailing market price of the Company's shares. The terms on which the Company obtains financings are furthermore subject to the guidelines of the TSX-V.

The Company is not subject to material externally imposed capital constraints.