

TENTH AVENUE PETROLEUM CORP.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2018
(UNAUDITED)

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

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 of Tenth Avenue Petroleum Corp 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 standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Calgary, Alberta
November 28, 2018

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars
(UNAUDITED)

As at	Note	September 30, 2018 \$	December 31, 2017 \$
ASSETS			
CURRENT			
Cash and cash equivalents		25,763	8,227
Trade and other receivables		12,021	52,150
Short term investment		14,022	14,022
Prepaid expenses and deposits		28,954	988
		80,760	75,387
Restricted cash held in trust	3	207,741	206,281
Oil and gas properties	4	1,511,335	1,576,158
TOTAL ASSETS		1,799,836	1,857,826
 LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		262,698	253,879
Asset retirement obligation	7	186,574	186,574
		449,272	440,453
Loan payable	6	1,432,958	1,359,958
Asset retirement obligation	7	236,204	215,712
Total liabilities		2,118,434	2,016,123
 SHAREHOLDERS' EQUITY			
Share capital	8	12,465,831	12,465,831
Contributed surplus		9,659,522	9,659,522
Deficit		(22,443,951)	(22,283,650)
Total shareholders' equity		(318,598)	(158,297)
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,799,836	1,857,826
Going concern	1		

Signed "Gregory J. Leia"
Gregory J. Leia Director

Signed "Craig Leggatt"
Craig Leggatt Director

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

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars
(UNAUDITED)

		Three Months Ended September 30		Nine Months Ended September 30	
	Note	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
REVENUE					
Oil & natural gas sales		\$ 96,447	\$ 248,094	\$ 523,686	\$ 301,961
Royalties		(14,381)	(6,996)	(112,084)	(16,949)
Other revenue		-	-	-	4,970
		82,066	241,098	411,602	289,982
EXPENSES					
Production expenses		58,025	102,808	247,086	135,293
General and administrative		37,283	28,512	183,037	117,372
Share based compensation	9	-	-	-	15,160
Depletion, depreciation and impairment	4	17,143	33,532	81,779	46,599
		112,451	164,852	511,902	314,424
Operating income(loss) from continuing operations		(30,385)	76,246	(100,300)	(24,442)
Other (income) expense items					
Interest income		-	(22)	-	(22)
Interest expense and accretion		20,000	18,065	60,000	19,459
Income(Loss) from continuing operations		(50,385)	58,203	(160,300)	(43,879)
Net Income(loss)		(50,385)	58,203	(160,300)	(43,879)
Foreign exchange translation adjustment		-	-	-	-
COMPREHENSIVE INCOME(LOSS)		\$ (50,385)	\$ 58,203	\$ (160,300)	\$ (43,879)
INCOME(LOSS) PER SHARE					
Basic and diluted - continuing operations		\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)

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

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

(UNAUDITED)

	September 30, 2018	September 30, 2017
Operating activities		
Net loss	\$ (160,300)	\$ (43,879)
Depletion, depreciation and impairment	81,779	46,599
Interest expense and accretion, non-cash	64,532	15,006
Share based compensation	-	15,160
Changes in non-cash working capital	(41,019)	(195,828)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(55,008)	(162,942)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Issue of shares	-	100,000
Increase in Loan	73,000	1,326,593
	73,000	1,426,593
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchase of property and equipment	456	1,263,151
	456	1,263,151
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,536	500
CASH AND CASH EQUIVALENTS, beginning of year	8,227	1,440
CASH AND CASH EQUIVALENTS, end of year	\$ 25,763	\$ 1,940

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

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

(UNAUDITED)

	September 30, 2018	September 30, 2017
SHAREHOLDERS' EQUITY		
<u>Share capital</u>		
Balance, beginning of year	\$ 12,465,831	\$ 12,365,831
Private placement	-	100,000
Balance, end of year	\$ 12,465,831	\$ 12,465,831
<u>Warrants</u>		
Balance, beginning of year	\$ -	\$ -
Warrants expired	-	-
Balance, end of year	\$ -	\$ -
<u>Contributed surplus</u>		
Balance, beginning and end of year	\$ 9,659,522	\$ 9,644,362
Warrants expired	-	-
Share based compensation	-	15,160
Balance, end of year	\$ 9,659,522	\$ 9,659,522
<u>Accumulated other comprehensive income</u>		
Balance, beginning of year	\$ -	\$ -
Foreign exchange translation adjustment	-	-
Transfer of translation adjustment realized on discontinued operations	-	-
	\$ -	\$ -
<u>Deficit</u>		
Balance, beginning of year	\$ (22,283,651)	\$ (21,904,750)
Net loss	(160,300)	(43,879)
Balance, end of year	\$ (22,443,951)	\$ (21,948,629)
TOTAL SHAREHOLDERS' EQUITY	\$ (318,598)	\$ 176,724

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

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

Tenth Avenue Petroleum Corp (“**TAPC**”) and its two wholly owned subsidiaries: Jadela Oil (US) Operating LLC (“**Jadela US**”) and Jadela Disposal Well Corp (“**Disposal Corp**”) (collectively referred to as the “**Company**”), unless otherwise noted, are in the business of exploring for and developing petroleum and natural gas properties in Western Canada. TAPC is a company domiciled in Canada. The address of the Company’s registered office is 203, 221 10th Avenue SE, Calgary, Alberta.

1. GOING CONCERN

These consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. The accompanying consolidated financial statements have been prepared using the going concern assumption which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As the Company incurred losses has a working capital deficit and will need capital to fund its planned operating, exploration and development activities, there is a material uncertainty which casts significant doubt on the Company’s ability to continue as a going concern. For the period ended September 30, 2018, the Company incurred a net loss of \$160,300 (September 30, 2017 – \$43,879) and has working capital deficit of \$ 181,939 (September 30, 2017 - \$77,938) and an accumulated deficit of \$ 22,443,951 (September 30, 2017 - \$21,948,629).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Authorization:

These consolidated financial statements have been prepared in accordance with the International Accounting Standard (“IAS”) 34, “Internal Financial Reporting” issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”). Accordingly, certain information or footnotes normally included in the annual consolidated financial statements with International Financial Reporting Standards (“IFRS”) have been condensed or omitted. The consolidated financial statements of the Company include the accounts of the Company and have been prepared by management. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2017.

These consolidated financial statements were authorized for issue by the Board of Directors on November 28, 2018.

Basis of presentation

Except as outlined below the consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2017.

Change in Accounting Policy - IFRS 15 “Revenue from contracts with customers”

The Company adopted IFRS 15 with a date of initial application of January 1, 2018. IFRS 15 replaces existing revenue recognition guidance and provides a single, principles-based five-step model to be applied to all contracts with customers. The Company used the modified retrospective approach to adopt the new standard, applying the standard retrospectively only to contracts that were not completed contracts on January 1, 2018. Under the transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to deficit. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients such as the right to invoice method of measuring the Company’s progress towards complete satisfaction of its performance obligations, there was no change or adjustments to the Company’s consolidated financial statements as a result of the adoption of IFRS 15. Additional disclosure requirements required by IFRS 15 are detailed in Note 16.

The Company recognizes revenue at a point in time when control of the product has been transferred to the customer and performance obligations have been satisfied. This is generally met when the customer obtains legal title to the product and physical delivery at a delivery point has taken place. Revenue is measured based on the consideration specified in the contracts the Company has with its customers principal or as an agent. In making this evaluation, management considers if it obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the party from the transaction.

The Company incurs and pays for processing and transportation of its natural gas and natural gas liquids based on a pre-set price as agreed in a gas and liquids handling contract with each gas plant. These are billed as operating expenses to do not relate to revenue. For the period ended September 30, 2018, natural gas and natural gas liquids were sold to gas marketers and the price received was independent of the processing and transportation costs of the plant operators.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

Change in Accounting Policy - IFRS 9 “Financial Instruments”

On January 1, 2018, the Company adopted IFRS 9 as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and liabilities, and a new expected loss impairment model for financial assets including credit losses. The adoption of IFRS 9 did not have a material impact on the Company’s consolidated financial statements. No additional disclosures related to the Company’s financial assets were required. The Company has revised the description of its accounting policy for financial instruments to reflect the new classifications approach as follows:

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument.

The Company has made the following classifications:

- Fair value through profit or loss: Financial instruments under this classification include cash and commodity contract asset and liabilities.
- Amortized cost: Financial instruments under this classification included accounts receivable, deposits, demand credit facilities, loan by Smoky Oil & Gas Corp (“**Smoky**”) described in Note 6, accounts payable and accrued liabilities.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company’s accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss (“**ECL**”) is measured at the date of initial recognition of the accounts receivable.

For accounts receivable, the Company assesses the lifetime ECL applicable to its commodity product sales receivables and joint venture receivables at initial recognition and re-assesses the provision at each reporting date. The majority of the Company’s accounts receivable are due from joint venture partners in the oil and gas industry and from marketers of the Company’s petroleum and natural gas production. In making an assessment as to whether the Company’s financial assets are credit impaired, the Company considers historical bad debts, the counterparties financial condition, credit rating and total financial exposure. The carrying amounts of receivables are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in comprehensive loss.

The Company considers all amounts greater than 90 days past due. These past due accounts are considered to be collectible, except as provided in the allowance for doubtful accounts. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties.

Pending Reviews of Accounting Policies

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company’s financial statements:

IFRS 16 ‘Leases’ was issued by the IASB in January 2016. IFRS 16 replaces the existing standard IAS 17 and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is in the process of assessing the impact of the adoption of this standard on the Company’s consolidated financial statements.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

3. RESTRICTED CASH HELD IN TRUST

Restricted cash held in trust includes USD \$51,352 (2017 - \$51,352) held by the Alberta Energy and Utilities Board, USD\$124,629 (2017 - \$124,629) held by British Columbia Minister of Energy, Mines and Petroleum Resources and USD \$24,152 (2017 - USD \$24,152) held by the Texas Railway Commission.

4. PROPERTY AND EQUIPMENT

Waskahigan Asset Acquisition in Alberta

On July 31, 2017 the company closed an acquisition of oil and gas properties in the Fox Creek area of Alberta for cash consideration of \$1,252,890 which includes customary purchase adjustments. The transaction costs incurred on the acquisition of \$52,500 were expensed. This acquisition has been accounted for using the acquisition method of accounting, which only includes the operating results subsequent to the date of acquisition.

Consideration paid		\$ 1,252,890
Net assets acquired at the estimated fair value		
Property and equipment assets		1,459,890
Asset retirement obligation		(207,000)
		\$ 1,252,890

The fair value of the property and equipment has been determined with reference to an independent reserve report. The fair value of the asset retirement obligation was initially estimated using a credit adjusted rate of 10%. Included in the statement of loss and comprehensive loss are the amounts relating to the assets acquired on July 31, 2017 to December 31, 2017.

Oil and natural gas sales	\$ 279,403
Operating income (revenue less royalties, transportation and operating costs)	\$ 27,516

If the asset acquisition had occurred on January 1, 2017, the Company's pro forma results of petroleum and natural gas sale and net income and comprehensive income for the year ended December 31, 2017 would have been as follows:

	As stated in the statement of loss and comprehensive loss	January 1, 2017 to closing date Acquisition Assets	Pro forma (unaudited)
Oil and natural gas sales	\$ 416,440	\$ 1,109,011	\$ 1,525,451
Operating income (revenue less royalties, transportation and operating costs)	\$ 26,953	\$ 468,228	\$ 495,181
Comprehensive income (loss)	\$ (325,298)	\$ 468,228	\$ 142,930

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

4. Property and Equipment (continued)

On July 31, 2017, the Company acquired oil and gas mineral rights from surface to base of the Bluesky Bullhead Group in 22 sections (gross 14,080 acres and net 9,726 acres) located near Fox Creek, Alberta. The assets consist of 8 vertical wells producing approximately 1,800 mcf/d of dry sweet natural gas and 17 b/ngl/d of NGL from the Dunvegan/Gething formations (“**Waskahigan Assets**”). The final adjusted purchase price for the Waskahigan Assets was \$1,282,437, broken down as follows. The amount of \$972,890 shown above as P&NG purchases reflects the \$1,120,000 in P&NG Rights below, plus \$41,928 in inventory and less accounting adjustment of \$189,038 for net operating income prior to the closing date of purchase of July 31, 2017

The above amounts are estimates, which were made by Management at the time of the preparation of these consolidated financial statements based on the information then available. Amendments may be made to these amounts as values subject to estimates are finalized.

The fair value of the P&NG purchases has been determined to equate the purchase price above. The fair value of the ARO was initially estimated using a credit adjusted rate of 10 %.

	Oil and Natural Gas Assets	Water-well assets	Other assets	Total
COST OR DEMMED COST	\$	\$	\$	\$
Balance, December 31, 2017	2,248,678	155,800	72,678	2,477,156
Foreign exchange and other adjustments	436	-	-	436
Balance, September 30, 2018	2,249,114	155,800	72,678	2,477,592
ACCUMULATED DEPLETION, DEPRECIATION				
Balance, December 31, 2017	686,410	144,306	70,282	900,998
Depletion, depreciation for the year	40,931	22,802	1,526	65,259
Balance, September 30, 2018	727,341	167,108	71,808	966,257
CARRYING AMOUNT	\$	\$	\$	\$
December 31, 2017	1,562,268	11,494	2,396	1,576,158
September 30, 2018	1,521,773	(11,308)	870	1,511,335

5. EXPLORATION AND EVALUATION ASSETS

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

The following table summarizes information about the Company's exploration and evaluation assets:

<u>Cost</u>	
Balance, December 31, 2015	\$ 69,229
Foreign exchange	13,177
Impairment	(82,406)
Balance, December 31, 2016 and 2017	\$ -

E&E Assets consist of the Company's exploration and development projects which are pending the determination of proved and probable reserves and production. Additions represent costs incurred on E&E Assets during the period, predominantly land acquisition costs and drilling costs on the Company's first well in Texas.

The Company recognized a \$82,406 impairment on the carrying value of the U.S. Assets as of December 31, 2015. The write down recognizes management's estimate that there is no recoverable salvage value from the existing assets and management has relinquished the Mineral Leases in Texas on November 30, 2015.

During the year, the Company acquired oil and gas rights for land located near Fox Creek as described in note 4. The Company determined that the purchase were production properties and as such should not be recorded as E&E but rather PP&E.

6. LOAN PAYABLE

On July 31, 2017 the Company entered into a Loan and Participation Agreement with Smoky and Batoche Oil & Gas Exploration Ltd. ("**Batoche**"). Pursuant to the terms of the Loan and Participation Agreement ("**LPA**"), Smoky lent the Company the sum of \$1,326,593 to make the acquisition of the Waskahigan Assets. The interest rate on the loan principal is 6% per annum. All obligation owing are secured by a general security agreement charging all of the assets of the Company. Subject to an agreed upon general and administrative expense payment, Smoky shall be entitled to all net cash flow from the Waskahigan Assets until the loan is repaid. While loans are outstanding, the Company shall be restricted to charging general and administrative costs to a maximum of \$75,000 per year for administration of the Waskahigan Assets and charging general and administrative costs to a maximum of \$75,000 per year for administration of the Waskahigan Participation Assets (as defined below). The LPA was amended on September 30, 2017 to provide that the Company shall be entitled to all net cash flows from operations until December 31, 2017. The LPA was amended as of January 1, 2018 and July 31, 2018 to provide that the Company shall be entitled to all net cash flows until December 31, 2018.

The Company has agreed to farmout to Batoche the Waskahigan Assets (other than existing wells and applicable spacing units)("**Waskahigan Participation Assets**"). There was an amendment to the original LPA, whereas as additional consideration, Smoky shall be entitled to receive: (a) 80% of net cash flow from the Waskahigan Assets (less agreed general and administrative expenses) until December 31, 2021 (subject to farmout rights); (b) 80% of net sale proceeds of Waskahigan Assets (subject to farmout rights); (c) right to compel the Company to buy Smoky's right to 80% of the net cash flow from the Waskahigan Assets (subject to farmout rights) for 2.5 times net cash flow; and (d) right to compel the Company to buy Smoky's right to 24% of the net cash flow from the Waskahigan Participation Assets (subject to farmout rights) for 2.5 times net cash flow from the Waskahigan Participation Assets. The Company shall have the right to: (a) right to compel Smoky to sell its right to 80% of the net cash flow from the Waskahigan Assets (subject to farmout rights) for 2.5 times net cash flow; and (d) right to compel Smoky to sell its right to 24% of the net cash flow from the Waskahigan Participation Assets for 2.5 times net cash flow from the Waskahigan Participation Assets.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

7. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total discounted cash flows to settle its asset retirement obligations are approximately \$835,439 (2016 - \$380,708). A credit-adjusted risk-free interest rate of 10.0% (2016 - 10%) and an estimated inflation rate of 1.4% (2016 - 1.4%) was used to calculate the present value of asset retirement obligations.

The following table reconciles the asset retirement obligations:

Asset Retirement Obligations	2018	2017
Balance, beginning of year	\$ 402,286	\$ 215,070
Addition during the year	-	176,244
Change in estimate	-	(2,887)
Foreign exchange	3,992	(6,324)
Accretion expense	16,500	20,183
Balance, End of year	\$ 422,778	\$ 402,286
Less: current portion	(186,574)	(186,574)
Long-term portion	\$ 236,204	\$ 215,712

8. SHARE CAPITAL

Authorized:

Unlimited Common voting shares with no par value
 Unlimited First Preferred shares, issuable in series, with rights and privileges to be determined at time of issue

Issued:

Common shares	Number of shares	Values
Balance, December 31, 2013	5,688,667	\$ 12,043,051
Balance, December 31, 2016	6,912,667	\$ 12,365,831
Issued	2,000,000	\$ 100,000
Balance, December 31, 2017 and September 30, 2018	8,912,667	\$ 12,465,831

During the year 2017, the Company issued a private placement of 2,000,000 units at a price of \$0.05 per unit for gross proceeds of \$100,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant will allow the holder to purchase one common share at a price of \$0.075 per common share within three years of issuance.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

9. CONTRIBUTED SURPLUS

The Company's contributed surplus consists of value assigned to issued options. The following table reconciles the Company's contributed surplus. The fair values of each option are established using the Black-Scholes option valuation model. The assumptions used in calculating the fair value of the options are:

Risk-free interest rate	1.00%	
Expected volatility	100.00%	
Expected dividend yield	0.00%	
Fair value	0.075%	
	Year Ended September 30, 2018	Year Ended December 31, 2017
Contributed Surplus, beginning of year	\$ 9,659,522	\$ 9,644,362
Stock based compensation	-	15,160
Contributed Surplus, end of year	\$ 9,659,522	9,659,522

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility considers the historical volatility of the Company's shares and any other features of the option grant that may impact the measurement of fair value such as market conditions. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. WARRANTS

The following table reflects share purchase warrants activity from January 1, 2018 to September 30, 2018 and the weighted average exercise price.

	September 30, 2018	
	Number	Weighted Average Exercise Price \$
Outstanding at beginning of year	2,000,000	0.075
Issued	-	-
Outstanding September 30, 2018	2,000,000	0.075

Details of warrants outstanding at September 30, 2018:

Year	Exercise price (\$)	Number	Years to expiry
2017	0.075	2,000,000	3.0

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

In Canadian Dollars

11. STOCK OPTIONS

The Company has a stock option plan available to directors, officers, employees and consultants. The maximum number of common shares reserved for issuance pursuant to the plan cannot exceed 10 percent of the issued and outstanding common shares. Options vest on grant, are generally exercisable for five years from the date of grant and are exercisable at prices equal to or greater than the market value of the shares at the date of the grant less the maximum discount permitted by the stock exchange. At December 31, 2017, there were an additional 111,127 common shares that are still available to be reserved for the granting of stock options.

A summary of the status of the Company's stock option plan as at September 30, 2018 and December 31, 2017 and changes during the years ending on those dates is as follows:

	September 30, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	780,000	0.075	377,500	0.075
Granted	-	-	510,000	-
Forfeited / Expired	-	-	(107,500)	(0.075)
Outstanding, end of year	780,000	0.075	780,000	0.075
Exercisable, end of year	780,000	0.075	780,000	0.075

Outstanding and exercisable stock options as at September 30, 2018 have a weighted average remaining contractual life of 1.60 years (2017 – 1.92 years).

The options granted in 2017 were to directors, 170,000 each to Gregory J. Leia, Gerry Roe and Craig Leggatt.

12. RELATED PARTY TRANSACTIONS

The Company has determined that the key management personnel of the Company consist of its officers and directors. The following table provides information on compensation expense related to officers and directors.

	September 30, 2018	December 31, 2017
Interest payable under loan by Smoky	\$60,000	\$ 33,449
Wages, consulting fees and benefits	\$64,406	\$ 146,122
Share based compensation	\$ -	\$ 15,160

The Company entered into a LPA with Smoky and Batoche on July 31, 2017. Pursuant to the terms of the LPA, Smoky lent the Company the sum of \$1,326,593 to make the Waskahigan Asset acquisition. The interest rate on the loan principal is 6% per annum. Interest from July 31, 2017 to December 31, 2017 was \$33,449. Interest from January 1, 2018 to June 30, 2018 was \$40,000. All obligation owing are secured by a general security agreement charging all of the assets of the Company. Gregory J. Leia is President and a director of the Company. Gregory J. Leia is an officer and director of Smoky and Batoche. Gregory J. Leia owns approx. 65% of the common shares and preferred shares of Smoky.

The Company has agreed to farmout to Batoche the Waskahigan Participation Assets on the terms and conditions set out in the Batoche Farmout Agreement. If Batoche defaults under the terms of the Batoche Farmout Agreement, and if the Company is unable to farmout to a third party, then the Company has agreed to farmout the Waskahigan Participation Assets to Smoky (if Smoky chooses to farm in) on terms and conditions equivalent to the farmout terms set out in Batoche Farmout Agreement. The Batoche Farmout Agreement contains a 3 well requirement to earn a 70% working interest in all Waskahigan Participation Asset mineral rights. The Batoche Farmout Agreement requires Batoche to be drill ready (Well #1) by June 30, 2019. Terms are: Batoche is to pay 100% of all costs to drill, complete and equip Well #1 to earn 70% in spacing unit associated with Well #1 subject to payout. The working interest participants are required to pay their proportionate share of Well #2 and Well #3. If Batoche drills Well #2, Batoche will earn 70% in the spacing unit associated with Well #2. If Batoche drills Well #3, Batoche will earn 70% working interest in all Waskahigan Participation Assets and any other lands acquired by the Company in Waskahigan area. Assuming Batoche earns 70% working interest in the Waskahigan Participation Assets, the Company will have a 6% working interest and Smoky will have a 24% working interest in the 3 wells and future developments.

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13. PER SHARE AMOUNTS

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the period of 8,912,667 (2017 – 8,912,667). As the Company was in a loss position, there was no change in the numerator or denominator in calculating diluted loss per share. The effect of all stock options and warrants has been excluded from the calculation as they are anti-dilutive.

In April 2017, the Company entered into a series of Subscription Agreements to sell 2,000,000 Units at \$0.05 per unit for aggregate subscription proceeds of \$100,000. Each Unit consists of 1 common share and 1 share purchase warrant which entitles the holder to purchase 1 common at any time within 3 years of issuance for \$0.075 per common share.

14. 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, 2018 are as follows:

	Balance at September 30, 2018	Quoted Prices in Active Markets			Total
		For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		\$	\$	\$	\$
Assets:					
Cash and cash equivalents	25,763	25,763	-	-	25,763

Credit risk – Consists of cash and cash equivalents, restricted cash held in trust and accounts receivables. A portion of the Company's accounts receivable are with gas marketers, gas processing plants, joint venture partners in the petroleum and natural gas industry and is subject to normal credit terms. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. The Company is also exposed to credit risk on certain deposits to the extent that the Company may not be refunded these amounts. The Company does not anticipate any default or non-performance by its oil and gas sales customers. As such a provision for doubtful accounts has not been recorded at September 30, 2018 or as of December 31, 2017 because there has been no credit losses on a historical basis.

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14. FINANCIAL INSTRUMENTS (continued)

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of the Company's trade and other receivables represents the maximum credit exposure. With respect to trade and other receivables, the Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Receivables from petroleum and natural gas marketers are collected on the 25th day of each month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with credit-worthy marketers, as well as to carefully assess the extent of credit granted to these parties.

Joint venture receivables are normally collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risks exist with joint venture partners as disagreements occasionally arise, increasing the risk of non-collection.

The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners. However, the Company does have the ability to withhold production from joint venture partners in the event of non-payment, as well as requiring prepayment (cash calls) for significant expenditures.

Contractual undiscounted cash flow requirements for contractual obligations as at September 30, 2018 are due as follows:

	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	262,698	-	-	-	262,698
Loans payable ⁽¹⁾	1,432,958	-	-	-	1,432,958
	1,695,656	-	-	-	1,695,656

Note (1): The loan is payable from net cash flow from operations after September 30, 2018 (see Note 6)

Liquidity risk - The Company approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has to date required funds from private placements to finance capital expenditures and operations (see notes 1 and 2).

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of trade and other payables and the debt owing to Smoky. Trade and other payables are considered due within one year. The terms for bank debt are outlined in note 6. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities.

Interest rate risk - The risk that future cash flows will fluctuate as a result of changes in market rates. The Company is exposed to fair value interest rate on its long term debt as the rates are fixed rates.

Market risk is the risk that changes in market prices relating to currency, commodity prices and interest rates will affect the Company's net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities. The objective of market risk management is to manage and control market risk exposure within acceptable parameters.

Although the Company generally does not sell or transact in foreign currency, the United States dollar influences the price of petroleum and natural gas sold in Canada. Furthermore, exchange rate fluctuations can affect the fair value and cash flow from derivative contracts. For the years ended December 31, 2017 and 2016, the Company did not enter into any foreign currency derivative contracts.

Commodity price risk - The Company is exposed to oil and gas commodity price risk and has not entered any financial derivatives to manage this risk. Commodity prices for crude oil, natural gas liquids and natural gas are also impacted by political events, meteorological conditions and changes in supply and demand. The Company may enter into commodity derivative contracts that provide downside price protection in order to provide some stability of cash flows for capital spending and planning purposes.

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15. CAPITAL MANAGEMENT

The Company's objectives are to maintain a flexible capital structure in order to meet its financial obligations and to execute on strategic opportunities throughout the business cycle. The Company's capital comprises shareholders' equity, demand credit facilities, and working capital. The Company manages the capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, The Company may issue new common shares, issue new debt or replace existing debt, adjust capital expenditures and acquire or dispose of assets. The Company evaluates its capital structure based on net debt to cash flow from operating activities and the current credit available to The Company compared to its budgeted capital expenditures. Refer to going concern discussions in note 1.

The Company continues to review its options to improve its financial leverage including the sale of assets, further adjustments to the capital program, hedging or the issuance of equity.

16. REVENUE

The Company sells its oil, natural gas, and natural gas liquids production pursuant to variable price contracts. The transaction price for variable priced contracts is based on a benchmark commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenues are typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point.

The following table presents the Company's production disaggregated by revenue source:

	Nine months ended September 30, 2018	Year Ended December 31, 2017
Natural gas	341,918	214,785
Crude oil and condensate	181,768	201,655
Royalties	(112,084)	(97,740)
Total	\$ 411,602	\$ 318,700

17. RISK MANAGEMENT

There have been no changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2017, other than the natural gas commodity price.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's comprehensive loss to the extent the Company has outstanding financial instruments. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Company enters into various derivative financial instrument agreements and physical contracts. The fair values of the derivative financial instruments are based on mark-to-market assessments and estimates of fair value and are recorded on the consolidated balance sheet as either an asset or liability with the change in fair value recognized in comprehensive loss. TAPC shut in all but one of its operated wells during the 3 month period ended September 30, 2018 because of historically low commodity prices. Unless hedged, TAPC receives a reference price referred to as AECO. AECO trades at approx. \$1.30 Cdn/gj for 3 month period ended September 30, 2018. The average processing charge is \$0.80/gj. The NGTL transportation charge is \$0.24 Cdn/gj. Notwithstanding, TAPC was able to realize \$1.30 Cdn/gj (net of processing charges) from the one well which produced approx. 700 gj/d. NYMEX natural gas prices averaged \$2.80 US/gj (\$4.50 Cdn) in the 3 months ended September 30. There was a resulting negative differential for North American natural gas of \$3.20 Cdn/gj. This trend may cause TAPC to shut in its natural gas wells in the future.

There are many factors influencing the drop in sales prices for AECO natural gas prices, including: (a) pipeline construction by TCPL; (b) excess supply of Canadian gas; (c) lack of take-away capacity in Canada; (d) no LNG exports from Canada; and (e) panic selling as a result of inordinate differential spreads between North American prices and AECO pricing. Pipeline takeaway capacity may improve until TCPL and Alliance complete construction of expansion in 2020. Oversupply of natural gas in the US may depress prices until such time as US LNG exports deplete North American inventories. The structural elements may take 2 years to balance themselves.