

**Petrox Resources Corporation**  
**Financial Statements**  
*December 31, 2016 and 2015*

**PETROX RESOURCES CORP.**  
**Index to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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FINANCIAL STATEMENTS

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## Independent Auditors' Report

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To the Shareholders of PETROX Resources Corp.:

We have audited the accompanying financial statements of Petrox Resources Corporation, which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising 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.

### *Auditors' 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 audits 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 auditors' 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.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Petrox Resources Corporation as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta  
April 20, 2017

*MNP* LLP

Chartered Professional Accountants

**MNP**

**PETROX RESOURCES CORP.**  
**Statements of Financial Position**  
**As at December 31,**

	Note	2016	2015
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		\$ 335,342	\$ 426,463
Trade and other receivables		63,960	97,922
Goods and services tax recoverable		2,383	4,485
Prepaid expenses		11,338	15,398
<b>TOTAL CURRENT ASSETS</b>		<b>413,023</b>	544,268
<b>NON-CURRENT</b>			
Property and equipment	5	1,881,141	2,347,258
Exploration and evaluation assets	6	1,113,437	1,104,613
<b>TOTAL ASSETS</b>		<b>\$ 3,407,601</b>	\$ 3,996,139
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT</b>			
Trade and other payables		\$ 75,169	\$ 74,544
<b>NON-CURRENT</b>			
Decommissioning obligations	7	323,156	334,633
<b>TOTAL LIABILITIES</b>		<b>398,325</b>	409,177
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	4,174,166	4,174,166
Contributed surplus		2,304,548	2,304,548
Deficit		(3,469,438)	(2,891,752)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>3,009,276</b>	3,586,962
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 3,407,601</b>	\$ 3,996,139

**GOING CONCERN (Note 2)**

**ON BEHALF OF THE BOARD**

*(Signed) "Edwin Tam"*

*(Signed) "Alan P. Chan"*

The accompanying notes are an integral part of the financial statements.

**PETROX RESOURCES CORP.**  
**Statements of Comprehensive Loss**  
**For the years ended December 31,**

	Note	2016	2015
<b>REVENUE</b>			
Production revenue		\$ 523,340	\$ 575,345
Royalties		(29,350)	(32,811)
		<b>493,990</b>	<b>542,534</b>
<b>EXPENSES</b>			
Operating costs		312,575	390,244
General and administrative fees		292,678	322,876
Depletion and depreciation	5	286,711	290,158
Impairment of assets	5,6	175,339	685,013
Accretion expense	7	4,373	2,153
		<b>1,071,676</b>	<b>1,690,444</b>
<b>NET COMPREHENSIVE LOSS</b>		<b>\$ (577,686)</b>	<b>\$ (1,147,910)</b>
<b>LOSS PER SHARE</b>			
Basic and diluted		\$ (0.010)	\$ (0.021)
<b>WEIGHTED AVERAGE COMMON SHARES</b>			
Basic and diluted	8	55,132,258	55,132,258

The accompanying notes are an integral part of the financial statements.

**PETROX RESOURCES CORP.**  
**Statements of Changes in Equity**  
**For the years ended December 31, 2016 and 2015**

	Share capital	Warrants	Contributed Surplus	Deficit	Shareholders' Equity Total
December 31, 2015	\$ 4,174,166	\$ -	\$ 2,304,548	\$ (2,891,752)	\$ 3,586,962
Comprehensive loss	-	-	-	(577,686)	(577,686)
<b>As at December 31, 2016</b>	<b>\$ 4,174,166</b>	<b>\$ -</b>	<b>\$ 2,304,548</b>	<b>\$ (3,469,438)</b>	<b>\$ 3,009,276</b>

	Share capital	Warrants	Contributed Surplus	Deficit	Shareholders' Equity Total
December 31, 2014	\$ 4,174,166	\$ 1,237,940	\$ 1,066,608	\$ (1,743,842)	\$ 4,734,872
Warrants expired	-	(1,237,940)	1,237,940	-	-
Comprehensive loss	-	-	-	(1,147,910)	(1,147,910)
<b>As at December 31, 2015</b>	<b>\$ 4,174,166</b>	<b>\$ -</b>	<b>\$ 2,304,548</b>	<b>\$ (2,891,752)</b>	<b>\$ 3,586,962</b>

The accompanying notes are an integral part of the financial statements.

**PETROX RESOURCES CORP.**  
**Statements of Cash Flows**  
**For the years ended December 31,**

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net comprehensive loss	\$ (577,686)	\$ (1,147,910)
Item not affecting cash:		
Depletion and depreciation	286,711	290,158
Accretion	4,373	2,153
Impairment of assets	175,339	685,013
Changes in non-cash working capital:		
Trade and other receivables	33,962	(26,022)
Goods and services tax recoverable	2,102	(3,105)
Prepaid expenses	4,060	(6,688)
Trade and other payables	625	(14,876)
<b>CASH USED IN OPERATING ACTIVITIES</b>	<b>(70,514)</b>	<b>(221,277)</b>
<b>INVESTING ACTIVITIES</b>		
Exploration and evaluation assets	(20,607)	(21,504)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(20,607)</b>	<b>(21,504)</b>
<b>DECREASE IN CASH</b>	<b>(91,121)</b>	<b>(242,781)</b>
Cash - beginning of period	426,463	669,244
<b>CASH - END OF PERIOD</b>	<b>\$ 335,342</b>	<b>\$ 426,463</b>

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**1. NATURE OF OPERATIONS**

Petrox Resources Corp. ("Petrox" or the "Corporation") is a public company (TSXV: PTC) incorporated under the Business Corporations Act (Alberta) on February 25, 2011. The principal business of the Corporation is the acquisition, exploration, development and production of petroleum and natural gas in Canada.

These financial statements were authorized for issue by the Board of Directors on April 20, 2017. The Corporation's registered office is Suite 2806, 505 – 6 Street S.W, Calgary, AB, Canada T2P 1X5.

**2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND GOING CONCERN**

These financial statements have been prepared in accordance and compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at the closing date of December 31, 2016.

IFRS was applied on a going concern basis, which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. The Corporation has cash of \$335,342 and working capital of \$337,854 at December 31, 2016. The Corporation expects to have sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments for at least twelve months from the end of the December 31, 2016 reporting period. Liquidity beyond the twelve month period is dependent on the ongoing demand and prices in the petroleum and natural gas market. These financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Corporation be unable to continue as a going concern.

**3. SIGNIFICANT ACCOUNTING POLICIES**

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value with changes in fair value recorded in earnings.

Functional Currency

The presentation currency and functional currency of the Corporation is the Canadian dollar.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

Exploration and Evaluation Assets

Exploration and evaluation costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights, directly attributable general and administrative expenses and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment. For purposes of impairment testing, exploration and evaluation assets are allocated to appropriate cash-generating units.

Property and Equipment

All costs directly associated with the development of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Disposals of property and equipment are measured at fair value unless the transactions lack commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Any gain or loss on the disposal of the property and equipment is measured as the difference between the asset's carrying value and the proceeds received on disposition.

Depletion and Depreciation

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Furniture and fixtures are depreciated on a straight-line basis over periods ranging from two to five years.

Revenue Recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment of Non-Financial Assets

The carrying amounts of the Corporation's non-financial assets are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated.

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill, if any, is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill. Exploration and evaluation assets are tested with the associated CGU for which the activity can be attributed or separately where an associated CGU does not exist for the exploration and evaluation activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in comprehensive loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

Financial Instruments

Financial Assets

The Corporation classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:

*Fair Value Through Profit or Loss*

This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. The Corporation has classified its cash as fair value through profit and loss.

*Loans and Receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Corporation has classified its trade and other receivables and goods and services tax receivable as loans and receivables.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial Assets (continued)*

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably measured. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

*Financial Liabilities*

The Corporation classifies its financial liabilities as other financial liabilities. The Corporation's accounting policy for this category is as follows:

*Other Financial Liabilities*

This category includes all of which are recognized at amortized cost. The Corporation has classified its trade and other payables as other financial liabilities.

*Fair Value Hierarchy*

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash is determined using level 1 inputs.

Taxes

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Corporation intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity, net of tax when deemed recoverable.

Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the net loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period. Diluted loss per share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

Recent Accounting Pronouncements Issued and not yet Effective

Certain new standards, interpretations, amendments and improvements to existing standards were approved by the IASB or IFRIC that are mandatory periods beginning after January 1, 2017 or later periods. The standards affected are as follows:

*a) IFRS 9 – Financial Instruments*

The Corporation will be required to adopt IFRS 9, Financial Instruments (“IFRS 9”) effective for fiscal years ending on or after January 1, 2018 with earlier application permitted. This is a result of the first phase of the IASB’s project to replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 has also been amended not to require the restatement of comparative period financial statements for the initial application of the classification and measuring requirements of IFRS 9, but instead requires modified disclosures on transition to IFRS 9. Management is analyzing the new standard to determine its impact on the Corporation’s financial statements.

*(b) IFRS 15 - Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15 Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. Management is analyzing the new standard to determine its impact on the Corporation’s financial statements.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Recent Accounting Pronouncements Issued and not yet Effective (Continued)

*(c) IFRS 16 - Leases*

On January 13, 2016; the IASB developed a new Leases Standard, IFRS 16, which supersedes IAS 17 Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. A company assesses whether to apply the requirements in IFRS 16 by identifying whether a contract is (or contains) a lease.

IFRS 16 defines a lease and includes application guidance to help companies make this assessment. The definition applies to both parties to a contract, ie. the customer ('lessee') and the supplier ('lessor'). Most significantly, IFRS 16 significantly changes how a company accounts for leases that were off balance sheet applying IAS 17, other than short-term leases (leases of 12 months or less) and leases of low-value assets (such as personal computers and office furniture). Applying IFRS 16, in essence for all leases, a company is required to:(i) recognize lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments;

(ii) recognize depreciation of lease assets and interest on lease liabilities in the income statement over the lease term; and,

(iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the cash flow statement.

The Corporation is analyzing the new standard to determine its impact on the Corporation's financial statements.

*(d) IAS 12 – Income Taxes*

On January 2016, the IASB issued amendments to IAS 12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Corporation is currently assessing the impact of the adoption of these amendments on the Corporation's financial statements.

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

Management reviews significant estimates on a periodic basis and, when changes in estimates are necessary, makes adjustments prospectively.

The key sources of estimates and judgments made by management, are as follows:

Exploration and Evaluation Costs

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Corporation is required to make judgments about future events and circumstances and applies estimates to assess the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop the project. Level of drilling success, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures, are important judgments when making this determination.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

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**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**  
**(continued)**

Development Costs

Management uses judgment to determine when exploration and evaluation assets are reclassified to Property and Equipment. This decision considers several factors, including the existence of reserves, appropriate approvals from regulatory bodies and the Corporation's internal project approval processes.

Determination of Cash Generating Units

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations. Management has determined that the Corporation has two CGUs.

Asset Impairment and Reversals

Management applies judgment in assessing the existence of impairment and impairment reversal indicators based on various internal and external factors. The recoverable amount of CGUs and individual assets is determined based on the higher of fair value less costs to sell or value-in-use calculations. The key estimates the Corporation applies in determining the recoverable amount normally include estimated future commodity prices, expected production volumes, future operating and development costs, discount rates, tax rates, and refining margins. In determining the recoverable amount, management may also be required to make judgments regarding the likelihood of occurrence of a future event. Changes to these estimates and judgments will affect the recoverable amounts of CGUs and individual assets and may then require a material adjustment to their related carrying value.

Deferred Taxes

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Corporation's estimate, the ability of the Corporation to realize the deferred tax assets could be impacted. Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Corporation records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Corporation's judgment of the likelihood of a future outflow and estimates of the expected settlement amount, and the tax laws in the jurisdictions in which the Corporation operates.

Reserves

Reserves are used in the unit of production calculation for depletion and depreciation, as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs and sustaining capital expenditures. These estimates and projections are uncertain as the Corporation does not have a long commercial production history to assist in the development of these forward-looking estimates. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators. The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital and tax rates. The price used in the Corporation's assessment of future cash flows is based on the Corporation's independent evaluator's estimate of future prices and evaluated for reasonability by the Corporation against other available information. The Corporation believes these prices are reasonable estimates for a long-term outlook.

**PETROX RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2016 and 2015**

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**  
**(continued)**

Decommissioning liabilities

The Corporation measures decommissioning liabilities at each financial statement date. The estimate is based on the Corporation's share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. Because of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase.

**5. PROPERTY AND EQUIPMENT**

<b>Year ended December 31, 2016</b>	<b><i>Property &amp; Equipment</i></b>	<b><i>Furniture &amp; Fixtures</i></b>	<b><i>Total</i></b>
<b>Cost</b>			
Beginning balance	\$ 2,825,485	\$ 2,212	\$ 2,827,697
Changes in estimate (Note 7)	(15,850)	-	(15,850)
Impairment / Disposal	(163,000)	(827)	(163,827)
Ending balance	2,646,635	1,385	2,648,020
<b>Accumulated Depletion</b>			
Beginning balance	(479,933)	(506)	(480,439)
Disposal	-	271	271
Depletion and Depreciation	(286,351)	(360)	(286,711)
Ending balance	(766,284)	(595)	(766,880)
<b>Book Value</b>	<b>\$ 1,880,351</b>	<b>\$ 790</b>	<b>\$ 1,881,141</b>

<b>Year ended December 31, 2015</b>	<b><i>Property &amp; Equipment</i></b>	<b><i>Furniture &amp; Fixtures</i></b>	<b><i>Total</i></b>
<b>Cost</b>			
Beginning balance	\$ 3,042,556	\$ 2,212	\$ 3,044,768
Changes in estimate (Note 7)	16,062	-	16,062
Impairment	(233,133)	-	(233,133)
Ending balance	2,825,485	2,212	2,827,697
<b>Accumulated Depletion</b>			
Beginning balance	(190,217)	(64)	(190,281)
Depletion and Depreciation	(289,716)	(442)	(290,158)
Ending balance	(479,933)	(506)	(480,439)
<b>Book Value</b>	<b>\$2,345,552</b>	<b>\$ 1,706</b>	<b>\$2,347,258</b>

Future development costs of \$1,500,000 (2015 - \$1,500,000) were included in the costs subject to depletion.

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**5. PROPERTY AND EQUIPMENT (continued)**

Impairment

At December 31, 2016, the Corporation determined that a low commodity price was an indicator of impairment and tested its cash-generating units for impairment. The recoverable amount of the CGUs was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a cost to sell of 2%, a discount rate of 10% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserves engineer for the Corporation's proved plus probable reserves. As a result, the Corporation has recognized an impairment of \$163,000 (2015 - \$233,133) on its Fletwode CGU. The impairment was the result of the decrease in the commodity price forecast.

Management performed a sensitivity analysis on the impairment assessment using a 15% discount rate, which would have caused one of the CGUs impairment to increase by \$235,000.

The impairment test was based on the following future prices at December 31, 2016.

Year	Light crude oil - EDM. Oil Edmonton Light (\$/bbl)	Natural gas – AECCO-C Spot (\$/Mcf)
2017	61.70	3.14
2018	64.85	3.55
2019	67.11	3.91
2020	70.88	4.27
2021	72.32	4.41
2022	73.77	4.55
2023	76.45	4.69
2024	80.43	4.84
2025	84.55	4.99
2026	86.24	5.15

Escalate oil, gas and product prices at 2.0% per year thereafter.

**6. EXPLORATION AND EVALUATION ASSETS**

	<i>Year ended</i> <i>December 31, 2016</i>	<i>Year ended</i> <i>December 31, 2015</i>
<b>Beginning balance</b>	<b>\$ 1,104,613</b>	\$ 1,534,989
Additions	20,607	21,504
Impairment	(11,783)	(451,880)
<b>Ending balance</b>	<b>\$ 1,113,437</b>	\$ 1,104,613

As a result of lease expiries, and management's decision not to renew certain leases, the Corporation has written off \$11,783 (2015 - \$451,880) of the exploration and evaluation assets.

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**7. DECOMMISSIONING OBLIGATION**

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Corporation's oil and gas properties:

	<i>Year ended December 31, 2016</i>	<i>Year ended December 31, 2015</i>
<b>Beginning balance</b>	<b>\$ 334,633</b>	<b>\$ 316,418</b>
Accretion	4,373	2,153
Change in estimate	(15,850)	16,062
<b>Ending balance</b>	<b>\$ 323,156</b>	<b>\$ 334,633</b>

The following assumptions were used to estimate the decommissioning obligation at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Undiscounted cash flows	\$377,659	\$394,576
Risk free rate	0.73% - 2.31%	0.48%-2.16%
Inflation rate	2%	2%
Expected timing of cash flows	8 to 10 years	2 to 11 years

**8. SHARE CAPITAL**

*(a) Authorized:*

- Unlimited number of common shares without par value
- Unlimited number of preferred shares without par value

Issued:	<i>December 31, 2016</i>		<i>December 31, 2015</i>	
Common shares	Number	Amount	Number	Amount
Balance – beginning and end of year	<b>55,132,258</b>	<b>\$ 4,174,166</b>	55,132,258	\$ 4,174,166

*(b) Stock Option Plan*

The Corporation has adopted an incentive stock option 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's requirements, grant to directors, officers, employees and technical consultants 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 of the Corporation. Such options will be exercisable for a period of up to 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

	<i>December 31, 2016</i>		<i>December 31, 2015</i>	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Balance - beginning of year	1,381,800	\$ 0.13	2,237,240	\$ 0.17
Expired	(332,800)	-	(855,440)	-
Balance - end of year	1,049,000	\$ 0.14	1,381,800	\$ 0.13
Exercisable - end of year	1,049,000	\$ 0.14	1,381,800	\$ 0.13

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**8. SHARE CAPITAL (continued)**

(b) Stock Option Plan (continued)

	<i>December 31, 2016</i>	<i>December 31, 2015</i>
Weighted average remaining life in years	1.19 years	1.89 years
Range of exercise price	\$0.12 - \$0.16	\$0.10 - \$0.16

(c) Warrants

	<i>December 31, 2016</i>		<i>December 31, 2015</i>	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance - beginning of year	-	\$ -	20,238,277	\$ 1,237,940
Expired	-	-	(20,238,277)	(1,237,940)
Balance - end of year	-	\$ -	-	\$ -

**9. RELATED PARTY TRANSACTIONS**

The following tables summarize the remuneration of directors and of other members of key management personnel during the periods:

	<i>Year ended December 31, 2016</i>	<i>Year ended December 31, 2015</i>
Consulting fees	\$ 114,700	\$ 124,000

**10. INCOME TAXES**

The net income tax provision differs from that expected by applying the combined federal and provincial tax rates due to the following:

	2016	2015
Net loss before income taxes	\$ (577,686)	\$ (1,147,910)
Combined federal and provincial income tax rate	27.00%	26.00%
Expected tax recovery	(155,975)	(286,978)
Non-deductible items and other	547	9,829
Changes in enacted rates	(30,371)	-
Tax benefit not recognized	185,799	277,149
	\$ -	\$ -

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**10. INCOME TAXES (continued)**

The statutory tax rate increased due to an increase in the Alberta provincial tax rate on July 1, 2016.

The Company has not recognized a deferred tax asset in respect of the following deductible temporary differences:

	2016	2015
Non-capital losses	\$ 2,971,942	\$ 2,448,616
Oil and gas assets	633,800	495,862
Share issuance costs	7,026	92,632
<b>Total deductible temporary differences</b>	<b>\$ 3,612,768</b>	<b>\$ 3,037,110</b>

The Corporation's non-capital losses of \$2,971,942 (2015 - \$2,448,616) expire between 2030 and 2036.

**11. FINANCIAL INSTRUMENTS**

The Corporation's financial assets consist of cash, trade and other receivables, and goods and services tax recoverable, and its financial liabilities consist of trade and other payables. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest or currency arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted, due to the short-term maturity of these items.

Credit risk

Credit risk is the risk of financial loss to a Corporation if a counter party to a financial instrument fails to meet its contractual obligations. The Corporation's financial instruments that subject it to credit risk relate to cash in Canadian chartered banks, interest receivable from Canadian chartered banks, goods and services tax recoverable from the federal government, and trade and other receivables. The Corporation considers the risk of default from parties in the oil and gas industry to be low.

The composition of trade and other receivables relates to oil sales which is typically collected in the month following the sales month.

The Corporation considers its receivables to be aged as follows:

	<i>December 31, 2016</i>	<i>December 31, 2015</i>
Current	\$ 66,343	\$ 102,407
<b>Total</b>	<b>\$ 66,343</b>	<b>\$ 102,407</b>

Liquidity risk

Liquidity risk relates to the risk that the Corporation 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. The Corporation anticipates it will have adequate liquidity to fund its financial liabilities. Trade and other payables consist of invoices payable to trade suppliers for general, administrative and capital expenditures and are usually payable in 30 to 90 days.

The following table indicates the contractual maturities for financial liabilities:

	<i>December 31, 2016</i>	<i>December 31, 2015</i>
Current	\$ 75,169	\$ 74,544
<b>Total</b>	<b>\$ 75,169</b>	<b>\$ 74,544</b>

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**11. FINANCIAL INSTRUMENTS (continued)**

Market risk

Market risk is the risk that changes in market prices, such as currency, commodity and interest will affect the Corporation's net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities. The Corporation does not procure services denominated in currency other than Canadian dollars. As such, the Corporation is not exposed to foreign currency fluctuations. The Corporation has no debt and as such has no material exposure to interest risk.

Commodity price risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Commodity prices for petroleum and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. As at December 31, 2016, a 5% change in price of oil would represent a change in net loss for the year ended December 31, 2016 of approximately \$26,000.

**12. CAPITAL MANAGEMENT**

The Corporation's objectives when managing capital are:

- To safeguard the Corporation's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to meet ongoing operating costs.
- To invest cash on hand in highly liquid and highly rated financial instruments.

The Corporation's policy is to maintain a strong and stable capital base for the objectives of maintaining financial flexibility, to sustain the development of the Corporation's current capital projects and for future development of the Corporation. The Corporation monitors its working capital and expected capital spending and issues share capital to manage its development plans.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. The Corporation is not subject to externally imposed capital requirements.

The Corporation considers its capital structure to be shareholders' equity.