

*McChip Resources Inc.*

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*Financial Statements*

*December 31, 2016 and 2015*

## Independent Auditors' Report

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To the Shareholders of McChip Resources Inc.:

We have audited the accompanying financial statements of McChip Resources Inc. which comprise the statements of financial position as at December 31, 2016 and December 31, 2015 and the statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and 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 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 an audit to obtain reasonable assurance whether the financial statements are free of 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 assessing the 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 is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of McChip Resources Inc. 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.

*MNP LLP*

Toronto, Ontario  
April 18, 2017

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**  
LLP

**McChip Resources Inc.**  
**Statements of Financial Position**  
*(expressed in Canadian dollars)*

	As at December 31 2016	As at December 31 2015
<b>Assets</b>		
Current assets		
Cash	\$ 157,966	\$ 154,277
Accounts receivable (Note 14)	68,819	54,029
Marketable securities (Note 3, 8, 9)	2,147,080	845,141
	<b>2,373,865</b>	<b>1,053,447</b>
Non current assets		
Investment in petroleum interests (Note 15)	607,266	1,164,943
Investment in other companies (Note 4)	1,202,206	1,249,284
	<b>\$ 4,183,337</b>	<b>\$ 3,467,674</b>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (Note 8)	\$ 160,000	\$ 40,000
Loans payable (Note 9)	344,168	202,960
Accounts payable and accrued liabilities (Note 14)	282,493	285,325
	<b>786,661</b>	<b>528,285</b>
<b>Shareholders' Equity</b>		
Share capital (Note 10)	5,246,662	5,246,662
Contributed surplus (Note 11, 12)	883,200	755,200
Retained earnings (deficit)	(2,733,186)	(3,062,473)
	<b>3,396,676</b>	<b>2,939,389</b>
	<b>\$ 4,183,337</b>	<b>\$ 3,467,674</b>

Commitments (Note 16)

Approved on behalf of the Board:

*"R D McCloskey"*

R D McCloskey, Director

*"E G Dumond"*

E G Dumond, Director

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

**McChip Resources Inc.**  
**Statements of Changes in Shareholders' Equity**  
*(expressed in Canadian dollars)*

		Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Shareholders' Equity
Balance at December 31, 2015		5,660,096	\$ 5,246,662	\$ 755,200	\$ (3,062,473)	\$ 2,939,389
Share based compensation	(Note 12)	-	-	128,000	-	128,000
Net income		-	-	-	329,287	329,287
<b>Balance at December 31, 2016</b>		<b>5,660,096</b>	<b>\$ 5,246,662</b>	<b>\$ 883,200</b>	<b>\$ (2,733,186)</b>	<b>\$ 3,396,676</b>
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Balance at December 31, 2014		5,660,096	\$ 5,246,662	\$ 755,200	\$ (2,800,705)	\$ 3,201,157
Net loss		-	-	-	(261,768)	(261,768)
<b>Balance at December 31, 2015</b>		<b>5,660,096</b>	<b>\$ 5,246,662</b>	<b>\$ 755,200</b>	<b>\$ (3,062,473)</b>	<b>\$ 2,939,389</b>

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

**McChip Resources Inc.**  
**Statements of Operations and Comprehensive Income (loss)**  
*(expressed in Canadian dollars)*

	For the years ended	
	December 31	
	2016	2015
<b>Revenue</b>		
Investment in petroleum interests	\$ 14,819	\$ 117,545
Realized gain (loss) on sale of investment in other companies and marketable securities	76,119	(52,717)
Unrealized appreciation of investment in other companies and marketable securities	1,253,635	399,941
Other Income	30,514	148,503
Royalty	173,931	388,351
	<b>1,549,018</b>	<b>1,001,623</b>
<b>Expenses</b>		
Administrative	523,969	543,877
Depreciation	-	1,513
Impairment loss on investment in petroleum interests (Note 15)	567,762	905,685
Share-based compensation	128,000	-
	<b>1,219,731</b>	<b>1,451,075</b>
<b>Income(loss) before provision for income taxes</b>	<b>329,287</b>	<b>(449,452)</b>
<b>Provision for (recovery of) income taxes</b>		
Current (Note 13)	-	-
Deferred (Note 13)	-	(187,684)
	-	(187,684)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 329,287</b>	<b>\$ (261,768)</b>
<b>Income (loss) per share</b>		
Basic and diluted	\$ 0.06	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	<b>5,660,096</b>	<b>5,660,096</b>

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

**McChip Resources Inc.**  
**Statements of Cash Flows**  
(expressed in Canadian dollars)

	For the years ended	
	December 31	
	2016	2015
<b>Operating activities</b>		
Net income (loss) and comprehensive income (loss)	\$ 329,287	\$ (261,768)
Items not affecting cash:		
Deferred income taxes expense	-	(187,684)
Gain (loss) on income on sale of marketable securities and investments in other companies	(76,119)	52,717
Depreciation	-	1,513
Share-based compensation	128,000	-
Unrealized appreciation of investment in other companies and marketable securities	(1,253,635)	(399,941)
Impairment of petroleum interests	567,762	905,685
	(304,705)	110,522
(Increase) decrease in accounts receivable	(14,790)	37,589
Increase (decrease) in accounts payable and accrued liabilities	(2,832)	87,610
<b>Cash provided by (used in) operating activities</b>	<b>(322,327)</b>	<b>235,721</b>
<b>Investing activities</b>		
Investment in petroleum interests	(10,085)	(289,386)
Sale of marketable securities and investments	479,508	202,406
Purchase of marketable securities	(393,041)	(237,504)
Purchase of investments in other companies	(11,574)	(15,410)
<b>Cash provided by (used in) investing activities</b>	<b>64,808</b>	<b>(339,894)</b>
<b>Financing activities</b>		
Increase in bank indebtedness	120,000	40,000
Increase in loans payable	141,208	18,760
<b>Cash provided by financing activities</b>	<b>261,208</b>	<b>58,760</b>
<b>Net increase (decrease) in cash</b>	<b>3,689</b>	<b>(45,413)</b>
<b>Cash, beginning of year</b>	<b>154,277</b>	<b>199,690</b>
<b>Cash, end of year</b>	<b>\$ 157,966</b>	<b>\$ 154,277</b>
Interest paid during the year	\$ 17,608	\$ 9,503

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

**1. Nature of Operations**

McChip Resources Inc. ("McChip" or "the Company") was incorporated in the Province of Ontario, Canada by letters patent dated March 8, 1935, as Madsen Red Lake Gold Mines Limited. Pursuant to Articles of Amendment dated May 21, 1981, the name of the Company was changed to McChip Resources Inc. and the common shares are listed on the TSX Venture Exchange, symbol MCS. McChip invests in petroleum interests in Western Canada, as well as direct and indirect interests in minerals. The indirect interests are in the form of marketable securities and investment in other companies which are listed on recognized exchanges. Effective July 1, 2016 the registered office of the Company is Suite 410, 150 York Street, Toronto, ON, M5H 3S5.

**2. Summary of Significant Accounting Policies****a) Statement of compliance**

The financial statements of the Company have been prepared in accordance 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").

The financial statements as at for the years ended December 31, 2016 and 2015 were approved and authorized for issue by the board of directors on April 18, 2017.

**b) Basis of preparation**

The financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

The financial statements are prepared on the historical cost basis except that financial instruments classified as fair value through profit or loss which are stated at their fair value, and have been prepared using the accrual basis of accounting except for cash flow information.

The accounting policies have been applied consistently to all periods presented in the financial statements.

**c) Cash**

Cash includes balances held with a Canadian chartered bank and brokerage accounts.

**d) Revenue recognition**

The operators of the various petroleum interests recognize the revenue from the sale of petroleum and natural gas when the product passes through the sales outlet meter of the processing plants. The Company recognizes the earnings from its investment in petroleum interests to the extent it is earned and receivable from these operations. The Company does not operate any of the interests it has in oil and natural gas.

Royalty income is recognized as earned as per the terms of the overriding royalty agreement.

Investment transactions are accounted for as of the settlement date. Realized gains and losses from investment transactions are calculated on an average cost basis. The difference between fair value and average cost is included in the Statements of Operations and Comprehensive Income (loss) as part of the "Unrealized appreciation of investment in other companies and marketable securities".

**e) Financial instruments****Financial assets**

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

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss.

#### Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

#### Available for sale

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. They are measured at fair value with the resultant gain or loss recognized in other comprehensive income. Financial assets classified as available for sale are subsequently re-measured if they have quoted market value in an active market or if fair value can be reliably determined. Otherwise, these investments are carried at cost and are written down and recognized in profit or loss when there is objective evidence of impairment.

### Financial liabilities

#### FVTPL

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as FVTPL. In addition, any other financial liabilities can be designated by the Company upon initial recognition as FVTPL. These instruments are subsequently re-measured at fair value with the change in fair value recognized in net income during the period.

#### Other financial liabilities

Non-derivative financial liabilities that have not been designated as FVTPL are classified as other liabilities, which are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial instrument</u>	<u>Classification</u>
Cash	FVTPL
Accounts receivable	Loans and receivables
Marketable securities	FVTPL
Investment in petroleum interests	Available for sale
Investment in other companies	FVTPL or available for sale
Bank indebtedness	Other financial liabilities
Loans payable	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities

#### f) Marketable securities

Marketable securities are carried at fair value. These marketable securities are in shares of companies listed on a recognized exchange and are predominately natural resource based. The intention, on acquisition, is to hold these securities for a period of less than twelve months.

#### g) Investment in other companies

Investments in other companies are carried at fair value unless they are investments without an active market and fair value is not readily determinable in which case they are carried at cost unless there is objective evidence of an impairment. These investments are in shares or other financial instruments of companies predominately listed on a recognized exchange and are natural resource based. The intention, on acquisition, is to hold these investments for periods, more likely than not, in excess of twelve months.

#### h) Investment in petroleum interests

This investment represents participation agreements with Signalta Resources Limited ("Signalta"), a Canadian controlled private company and other similar operators based in Calgary, Alberta. As this amount represents residual interests it has been considered as an investment in equity interests. Typically, the Company's proportionate share of specific yearly investment programs would range from less than 1% to 1%. The Company, by agreement, does not exercise joint control or significant influence over Signalta, as operator of the petroleum participations.

Accordingly, this investment has been classified as an available for sale financial instrument. As this investment has no quoted market price in active markets and its fair value cannot be reliably measured, it is recorded at cost, unless there is objective evidence of impairment.

**i) Income taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the Statements of Operations and Comprehensive Income (loss).

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

**j) Use of estimates**

The preparation of the financial statements with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from those estimates.

Accounts which require management to make material estimates in determining amounts recorded include impairment of petroleum interests, securities held at cost, deferred income taxes and share-based compensation.

Fair value of investment in securities not quoted in an active market:

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values and cost may be considered the best approximation of fair value.

Fair value of purchase warrants:

The fair value of purchase warrants are valued either at their quoted market values if traded on an active market, or valued through specified valuation models based on specific criteria. These models may range from using the intrinsic value model to using the Black-Scholes model to estimate fair value.

**k) Accounting for share-based compensation**

The grant date fair value of options allotted to directors, officers, and employees is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the grantee becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

The fair value of share options is measured at the grant date, using an option pricing model that takes into account the exercise price, the term of the option, the current share price, the expected volatility of the underlying shares, the expected dividend yield, the forfeiture and the risk free rate for the term of the option. If the options are exercised, contributed surplus will be reduced by the applicable amount with a corresponding charge to share capital.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

**l) Income (loss) per share**

The Company presents basic and diluted income (loss) per share ("IPS") data for its common shares. Basic IPS is calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common

shares outstanding during the period. Diluted IPS is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all potential dilutive common shares, which comprise share options granted to directors, officers, employees, consultants and other service providers of the Company. The effect on the diluted IPS on the exercise of the share options described in Note 12 would be anti-dilutive.

**m) Impairment**

**Financial assets**

A financial asset not carried at FVTPL is assessed annually to determine whether there is any indication that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset that is measured at amortized cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit and loss.

Financial assets with similar characteristics that are managed and evaluated as a portfolio are tested for impairment as a group. The remaining financial assets are assessed on an individual basis. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit and loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in comprehensive income to profit or loss. The amount of the cumulative loss that is recognized in other comprehensive income or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

**Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed annually to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then reduce the carrying amount of the other assets in the units (group of units) on a pro-rata basis.

In respect of other assets, impairment losses recognized in prior periods 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 depreciation or amortization, if no impairment loss had been recognized.

**n) Dividends**

Dividends on common shares are recognized in the financial statements in the period in which the dividends are approved by the Board of Directors.

**o) Recent Accounting Pronouncements**

IFRS 9 - *Financial Instruments* - published July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 - *Revenue from Contracts with Customers* – The standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC *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*. IFRS 15

establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption.

IFRS 16 - Leases – In January 2016 the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from contract with customers has also been applied.

The Company is in the process of determining the impact of these pronouncements on its financial statements.

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### 3. Marketable Securities

The marketable securities on hand at December 31, 2016, had a fair value of \$2,147,080 and a cost of \$3,823,519 (December 31, 2015 - \$845,141 and \$3,833,867). These marketable securities are in shares of companies listed on a recognized exchange and are primarily natural resource based. Some of these marketable securities were pledged as security for the loans payable, see Notes 8 and 9. The intention, on acquisition, is to hold these securities for a period of less than twelve months.

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### 4. Investment in Other Companies

The investment in other companies on hand at December 31, 2016, had a carrying value of \$1,202,206 and a cost of \$507,803 (December 31, 2015 - \$1,249,284 and \$496,229). These investments are in shares and other financial instruments of companies and are primarily natural resource based. The intention, on acquisition, is to hold these investments for periods, more likely than not, in excess of twelve months. The investment is comprised of available for sale securities in the amount of \$165,000 and fair value through profit or loss of \$1,037,206.

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### 5. Capital Management

The Company's capital structure consists of its shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available, to support the core nature of its business. The Company maintains its capital structure by using internally generated funds as the need arises. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business. The Company is not subject to externally imposed capital requirements.

Management reviews its approach to capital management on an ongoing basis and believes that this approach is reasonable considering the relative size of the Company.

There were no changes in the Company's approach to capital management during this reporting period.

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### 6. Financial Risk Factors

The Company's financial risk exposure and the impact of its financial instruments are summarized below:

#### Credit risk

The Company's credit risk is attributable to accounts receivable and certain investment in other companies. In the opinion of management the credit risk with respect to these instruments is low.

#### Liquidity risk

The Company ensures that there is sufficient cash and other short term assets readily convertible into cash in order to meet its liabilities when they come due. Additionally the Company has secured a short term working capital line of credit with its bank, at December 31, 2016 the outstanding loan was \$160,000 ( December 31, 2015 – \$40,000). The Company has no long term credit facility, trade and other payables have maturity dates of less than sixty days and are subject to normal trade terms. Management believes that the liquidity risk is low.

#### Interest rate risk

The Company has a bank credit facility for short term working capital purposes and loans payable to supplement its investment strategies. The facility exposes the Company to interest rate risk which fluctuates in accordance with market rates. Management believes that the interest rate risk to be low.

**Foreign currency risk**

The Company is exposed to foreign currency risk. This would be in conjunction with its investments in currency of the United States of America. This is a negligible part of the Company's business and with the amount of foreign currency involved management considers the foreign currency risk to be low.

**Commodity price risk**

The Company is exposed to price risk with respect to the fluctuations in commodity prices. The volatility of prices received by the operator for the oil and natural gas produced will affect the Company's available cash and profits.

**Fair Value**

Fair value is determined using the following methods and assumptions:

The carrying value of accounts receivable, accounts payable and accrued liabilities, loans payable, and bank indebtedness approximate their fair value due to the relatively short periods to maturity of these instruments. The carrying value of the floating rate loans payable is assumed to approximate its fair value as interest is based on market related variable rates.

Cash, Marketable securities and investment in other companies, (except the available for sale investments carried at cost), are carried at fair value.

**Sensitivity Analysis**

As at December 31, 2016, had the prices on the respective stock exchanges for marketable securities and publicly held investments in other companies raised or lowered by 5%, with all other variables held constant, the equity of the Company would have increased or decreased by \$159,642 (December 31, 2015 - \$96,471).

**Fair Value Hierarchy**

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in their measurement. The fair value hierarchy has the following levels:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the comparable asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

	Level 1	Level 2	Level 3	Total
2016				
Marketable Securities	\$ 2,147,080	\$ -	\$ -	\$2,147,080
Investment in other companies	\$ 1,037,206	\$ -	\$ -	\$1,037,206
Total	\$ 3,184,286	\$ -	\$ -	\$3,184,286

Included in investment in other companies is \$165,000 of available for sale securities recorded at cost.

	Level 1	Level 2	Level 3	Total
2015				
Marketable Securities	\$ 845,141	\$ -	\$ -	\$ 845,141
Investment in other companies	\$1,084,284	\$ -	\$ -	\$1,108,284
Total	\$1,929,425	\$ -	\$ -	\$1,929,425

Included in investment in other companies is \$165,000 of available for sale securities recorded at cost.

**7. Royalty Interest**

The Company signed a lease agreement effective September 19, 2008, with Potash Corporation of Saskatchewan Inc. ("PCS") granting PCS the right to mine potash from the Company's mineral leases in the Rocanville area of the Province of Saskatchewan. The royalties are based on a rate equivalent to the royalty rate payable to the Crown calculated on Potash Ore from time to time pursuant to the provision of the regulations under The Crown Minerals Act of the Province of Saskatchewan.

**8. Bank Indebtedness**

The Company has an operating line of credit in the amount of \$160,000 that bears interest at the annual rate of prime plus 0.5%. As at December 31, 2016 bank indebtedness was \$160,000 (December 31, 2015 – \$40,000). To support the line of

credit, the Company had cash of \$146,508 and marketable securities having a fair value of \$53,740 respectively (December 31, 2015 cash of \$146,308, and marketable securities having a fair value of \$10,680) being held in safekeeping by the bank.

#### 9. Loans Payable

The loans payable of \$344,168 represent broker margin accounts at December 31, 2016 (December 31, 2015 - \$202,960), and are secured by certain of the Company's marketable securities. Interest payable on the margin accounts are at the rates of prime plus 1.00% to prime plus 1.50% annually.

#### 10. Share Capital

- a) Authorized: Unlimited common shares  
b) Common shares issued:

	Number of shares	Value
Balance – December 31, 2016 and December 31, 2015	5,660,096	\$5,246,662

#### 11. Contributed Surplus

The December 31, 2016 contributed surplus balance was \$883,200 (December 31, 2015 \$755,200). These amounts are related to stock options that have been granted or expired on the Company's common shares.

#### 12. Share - based Compensation

##### Stock options

The Company has adopted a Stock Option Plan (the "Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase shares, to directors, officers, employees and consultants of the Company.

Under the Plan, the aggregate number of shares to be issued upon the exercise of outstanding options granted hereunder may not exceed 560,000 shares.

Exercise prices shall be determined by the Board of Directors. The exercise price shall not be less than the closing price (the 'market price') of the shares on the exchange immediately preceding the day on which the Board grants the options and provides notice to the exchange. There is no vesting period and the term is five years for options granted.

Stock options on 400,000 common shares were outstanding on December 31, 2016, and December 31, 2015 there were stock options on 400,000 common shares were outstanding. On September 1, 2011 stock options on 400,000 common shares were granted to the directors, officers, and employees of the Company at \$2.20 per share which expired August 31, 2016. Effective September 26, 2016 stock options on 400,000 common shares were granted to directors, officers and employees of the Company at \$0.60 per share to expire September 25, 2021.

A summary of the status of the Company's outstanding stock options as of December 31, 2016 and December 31, 2015, and changes during the period ended on those dates are presented in the following table:

	2016		2015	
	Number	Exercise price	Number	Exercise price
Outstanding and exercisable, beginning	400,000	\$2.20	400,000	\$2.20
Exercised	Nil	Nil	Nil	Nil
Expired	(400,000)	N/A	Nil	Nil
Granted	400,000	\$0.60	Nil	Nil
Outstanding, ending and exercisable	400,000	\$0.60	400,000	\$2.20

There were no stock options exercised in 2016 or 2015.

## Stock option disclosure

The fair market value of stock options granted on September 26, 2016 that expire September 25, 2021 was estimated using the Black Scholes fair value option-pricing model and the following assumptions were used:

Dividend yield	0.00%
Risk-free interest rate	0.54%
Expected stock volatility	65.15%
Forfeiture rate	0.00%
Weighted-average expected life in years	5.00
Weighted-average share price	\$0.60
Exercise price	\$0.60

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Volatility is based on the historical volatility of the Company's common shares. Changes to the estimates and assumptions may materially affect the calculations. The effect in accounting for the share-based compensation of \$128,000 determined for the year ended December 31, 2016, was the recognition of compensation expense and contributed surplus for options granted.

The weighted average remaining contractual life is 4.74 years.

### 13. Income Taxes

The effective combined Canadian federal and provincial statutory income tax rate for the current year is 26.75% (2015 – 26.25%) and the combined enacted tax rate for deferred tax assets and liabilities is 26.75% (2015 – 26.25%). The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rates is as follows:

	December 31, 2016	December 31, 2015
Net income (loss) before recovery of income taxes	\$ 329,287	\$ (449,452)
Expected income tax (recovery) expense	\$ 88,084	\$ (117,981)
Tax rate changes and other adjustments	(3,317)	(145,849)
Permanent differences	(140,282)	(45,522)
Non-taxable dividends	(1,517)	(32,762)
Change in tax benefits not recognized	57,032	154,430
Income tax (recovery) expense	\$ -	\$ (187,684)

The Company's income tax (recovery) is allocated as follows:

Current tax (recovery) expense	\$ -	\$ -
Deferred tax (recovery) expense	-	(187,864)
	\$ -	\$ (187,684)

#### Deferred tax

The following table summarizes the components of deferred tax:

Deferred Tax Assets	December 31, 2016	December 31, 2015
Property, plant and equipment	\$ -	\$ -
Intangible asset	-	-
Non-capital losses carried forward	-	-
Net capital losses carried forward	92,877	107,409
Deferred tax liabilities		
Marketable securities and investments in other companies	\$ (92,877)	\$ (107,409)
Mineral properties	-	-
Net deferred tax liabilities	\$ -	\$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities	2016		2015	
Balance at the beginning of the year	\$	-	\$	(187,684)
Recognized in profit/loss		-		187,684
Balance at the end of the year	\$	-	\$	-

#### Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2016		2015	
Marketable securities and investments in other companies	\$	3,895,141	\$	5,232,429
Property, plant and equipment		49,065		65,420
Investment in petroleum interests		664,302		71,540
Intangible asset		15,222		16,368
Non-capital losses carried forward		872,832		595,776
Net capital losses carried forward		437,503		766,355

The Canadian non-capital loss carry forwards expire as noted in the table below.

The net capital loss carry forward may be carried forward indefinitely, but can be only used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future capital profit will be available against which the Company can utilize the benefits there from.

The Company's Canadian non-capital income tax losses expire as follows:

2026	\$	140,125
2031		2,424
2032		248,152
2033		181,330
2035		23,745
2036		277,056
	\$	872,832

#### 14. Related Party Transactions and Disclosure

Included in accounts payable as at December 31, 2016 is an amount due to a related company that has a common director and officer of \$43,337, (December 31, 2015 - \$104,323). The amount payable was the result of the Company's investment in petroleum interests which is in the normal course of its business.

Included in accounts payable as at December 31, 2016, is an amount due to a related party who is a director, and officer of the Company of \$965 (due from, December 31, 2015 - \$3,195). Related party expenditures paid during the year ended December 31, 2016 were in the normal course of business, for consulting and management fees were \$60,011 (2015 - \$60,011). Administrative fees were paid to a related party in the amount of \$1,133 for the year ended December 31, 2016, (2015 - \$3,036).

A recovery for office lease expenses from a related party of \$12,000 (2015 - \$24,000) was credited to administrative expenses.

## Key management personnel, directors' compensation

	December 31, 2016		December 31, 2015	
Short-term employee benefits	\$	202,927	\$	202,927
Directors fees		12,000		12,000
Share-based compensation expense		112,000		nil

## 15. Investment in petroleum interests

Balance -	December 31, 2014		\$1,781,242
	Additions		289,386
	Impairment loss recognized	(i)	(905,685)
Balance -	December 31, 2015		\$1,164,943
	Additions		10,085
	Impairment loss recognized	(ii)	(567,762)
Balance -	December 31, 2016		\$607,266

- (i) Based on a discounted cash flow analysis an impairment loss of \$905,685 was recognized in 2015. Key assumptions included a 12.5% discount rate on a twenty year cash flow projection utilizing the AECO-C spot price ranging from \$2.67 to \$6.63 per MCF for natural gas.
- (ii) Based on a discounted cash flow analysis an impairment loss of \$567,762 was recognized in 2016. Key assumptions included a 12.5% discount rate on a twenty year cash flow projection utilizing the AECO-C spot price ranging from \$1.59 to \$4.99 per MCF for natural gas.

## 16. Commitments

The Company's commitment for office space expired June 30, 2016. The Company was committed to annual lease payments plus operating costs as described below. By agreement, an annual subsidy of \$21,462 for the term of the lease has been received from a third party.

	Rent Expense	Subsidy
2015	\$30,720	\$(17,885)
2016	\$15,360	\$ nil