

**NOTICE OF NO AUDITOR REVIEW – CONDENSED FINANCIAL STATEMENTS**

THE ACCOMPANYING CONDENSED FINANCIAL STATEMENTS OF THE COMPANY HAVE BEEN PREPARED BY AND ARE THE RESPONSIBILITY OF THE COMPANY'S MANAGEMENT. THE COMPANY'S INDEPENDENT AUDITOR HAS NOT PERFORMED A REVIEW OF THESE CONDENSED FINANCIAL STATEMENTS IN ACCORDANCE WITH STANDARDS ESTABLISHED BY THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS FOR A REVIEW OF CONDENSED FINANCIAL STATEMENTS BY AN ENTITY'S AUDITOR

**NOTE TO READER**

THESE CONDENSED FINANCIAL STATEMENTS HAVE BEEN REVISED TO COMPLY WITH THE REQUIREMENTS SPECIFIED BY IAS 34 INTERIM FINANCIAL REPORTING FROM INTERNATIONAL REPORTING STANDARDS AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD AS IT PERTAINS TO NOTE 2 – BASIS OF PREPARATION.

*Condensed financial statements*

*September 30, 2018*

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

	As at September 30 2018	As at December 31 2017
<b>Assets</b>		
Current assets		
Cash	\$ 274,959	\$ 1,659,789
Accounts receivable (Note 14)	638,418	580,682
Marketable securities (Note 3, 8, 9)	3,715,557	3,028,373
	4,628,934	5,268,844
Non current assets		
Investment in petroleum interests (Note 15)	431,885	411,426
Investment in other companies (Note 4)	780,041	1,202,206
Loan receivable (Note 9)	35,300	-
Deferred income tax asset (Note 13)	174,926	174,926
	\$ 6,051,086	\$ 7,057,402
<b>Liabilities</b>		
Current liabilities		
Loans payable (Note 9)	\$ 135,517	\$ -
Accounts payable and accrued liabilities (Note 14)	124,140	139,042
Income taxes payable (Note 13)	309,553	521,343
	569,210	660,385
<b>Shareholders' Equity</b>		
Share capital (Note 10)	5,246,662	5,246,662
Contributed surplus (Note 11, 12)	883,200	883,200
Retained earnings (deficit)	(647,986)	267,155
	5,481,876	6,397,017
	\$ 6,051,086	\$ 7,057,402

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 condensed financial statements*

*McChip Resources Inc.*  
*Condensed 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, 2017	5,660,096	\$ 5,246,662	\$ 883,200	\$ 267,155	\$ 6,397,017
Dividend paid		-	-	(566,010)	(566,010)
Net loss	-	-	-	(349,131)	(349,131)
<b>Balance at September 30, 2018</b>	<b>5,660,096</b>	<b>\$ 5,246,662</b>	<b>\$ 883,200</b>	<b>\$ (647,986)</b>	<b>\$ 5,481,876</b>
Balance at December 31, 2016	5,660,096	\$ 5,246,662	\$ 883,200	\$ (2,733,186)	\$ 3,396,676
Net loss	-	-	-	(35,933)	(35,933)
<b>Balance at September 30, 2017</b>	<b>5,660,096</b>	<b>\$ 5,246,662</b>	<b>\$ 883,200</b>	<b>\$ (2,769,119)</b>	<b>\$ 3,360,743</b>

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

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

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
<b>Revenue</b>				
Investment in petroleum interests	\$ 41,749	\$ 2,600	\$ 96,447	\$ 17,372
Realized gain (loss) on sale of investment in other companies and marketable securities	779,397	16,807	1,212,053	(7,644)
Unrealized appreciation (depreciation) of investment in other companies and marketable securities	(1,152,160)	116,135	(1,170,613)	36,743
Other Income	10,286	8,625	143,265	104,265
Royalty (Note 7)	-	50,182	-	211,813
	<b>(320,728)</b>	<b>194,349</b>	<b>281,152</b>	<b>362,549</b>
<b>Expenses</b>				
Administrative	139,925	129,159	413,893	393,752
<b>Income (loss) before provision for income taxes</b>	<b>(460,653)</b>	<b>65,190</b>	<b>(132,741)</b>	<b>(31,203)</b>
<b>Provision for income taxes</b>				
Current (Note 13)	144,380	-	216,390	-
Deferred (Note 13)	-	4,730	-	4,730
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ (605,033)</b>	<b>\$ 60,460</b>	<b>\$ (349,131)</b>	<b>\$ (35,933)</b>
<b>Income (loss) per share</b>				
Basic and diluted	\$ (0.11)	\$ 0.01	\$ (0.06)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>				
Basic and diluted	<b>5,660,096</b>	<b>5,660,096</b>	<b>5,660,096</b>	<b>5,660,096</b>

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

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

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
<b>Operating activities</b>				
Net income (loss)	\$ (605,033)	\$ 60,460	\$ (349,131)	\$ (35,933)
Items not affecting cash:				
Deferred income taxes expense	-	4,730	-	4,730
(Gain) loss on sale of marketable securities and investments in other companies	(779,397)	(16,807)	(1,212,053)	7,644
Unrealized (appreciation) depreciation of investment in other companies and marketable securities	1,152,160	(116,135)	1,170,613	(36,743)
	(232,270)	(67,752)	(390,571)	(60,302)
(Increase) decrease in accounts receivable	44,858	21,544	(57,736)	(17,586)
Decrease in income taxes payable	(33,800)	-	(211,790)	-
Increase (decrease) in accounts payable and accrued liabilities	(567)	7,601	(14,902)	44,767
<b>Cash used in operating activities</b>	<b>(221,779)</b>	<b>(38,607)</b>	<b>(674,999)</b>	<b>(33,121)</b>
<b>Investing activities</b>				
(Investment in) recovery of petroleum interests	(9,458)	11,867	(20,459)	(6,475)
Sale of marketable securities and investments	1,552,381	243,212	2,608,924	331,957
Purchase of marketable securities	(1,492,184)	(194,470)	(2,806,125)	(284,419)
Purchase of investments in other companies	(14,293)	-	(26,378)	-
Investment in loan receivable	-	-	(35,300)	-
<b>Cash provided by (used in) investing activities</b>	<b>36,446</b>	<b>60,609</b>	<b>(279,338)</b>	<b>41,063</b>
<b>Financing activities</b>				
Decrease in bank indebtedness	(90,000)	(15,000)	-	(40,000)
Increase (decrease) in loans payable	135,517	(11,841)	135,517	23,791
Dividend paid	-	-	(566,010)	-
<b>Cash provided by (used in) financing activities</b>	<b>45,517</b>	<b>(26,841)</b>	<b>(430,493)</b>	<b>(16,209)</b>
<b>Net decrease in cash</b>	<b>(139,816)</b>	<b>(4,839)</b>	<b>(1,384,830)</b>	<b>(8,267)</b>
<b>Cash, beginning of period</b>	<b>414,775</b>	<b>154,538</b>	<b>1,659,789</b>	<b>157,966</b>
<b>Cash, end of period</b>	<b>\$ 274,959</b>	<b>\$ 149,699</b>	<b>\$ 274,959</b>	<b>\$ 149,699</b>
Interest paid during the year	\$ 9,835	\$ 4,784	\$ 15,274	\$ 13,857
Income taxes paid during the year	178,179	-	428,179	-

*The accompanying notes are an integral part of these condensed 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. 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**

These unaudited interim condensed financial statements have been prepared by management in accordance with IAS 34 Interim Financial Reporting from International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These unaudited interim condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements for the Company for the year ended December 31, 2017.

The condensed financial statements as at and for the nine months ended September 30, 2018 (with comparatives) were approved and authorized for issue by the board of directors on November 27, 2018.

**b) Basis of preparation**

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

The condensed 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 condensed 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	FVTPL
Investment in other companies	FVTPL or available for sale
Bank indebtedness	Other financial liabilities
Loans payable / receivable	Other financial liabilities / loans receivable
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 FVTPL.

**i) Income taxes**

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

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 condensed 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 condensed 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/(loss) 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 in 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 derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company anticipates that a result of adoption of IFRS 9, its Investment in Petroleum interests will be classified as a financial asset which is measured at FVTPL.

The Company does not anticipate any change in the recognition, measurement or classification of its remaining financial assets and liabilities as a result of adopting this standard. The Company also does not anticipate any impact on its credit risk

assessments as a result of adopting this standard, given the nature of its financial assets and history of incurring nil credit losses. The Company will continue to refine its analysis leading up to the first quarter reporting of 2018.

*IFRS 15 Revenue from Contracts with Customers* - The IASB has issued *IFRS 15 Revenue from Contracts with Customers*. IFRS 15 replaces 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. 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. The Company will not be early adopting IFRS 15. The Company has elected to adopt IFRS 15 using the modified retrospective approach. Under this approach the Company will recognize transitional adjustments in retained earnings on the date of initial application (January 1, 2018), without restating comparatives.

The application of IFRS 15 will affect the amount and timing of revenue recognized by the Company in respect of certain revenue transactions due to the variable consideration element arising in certain of its royalty arrangements.

The Company will estimate the amount of variable consideration subject to the reversal constraint as required by IFRS 15 and revenue related to this variable consideration will be recognized when the performance obligations are met.

*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 this pronouncement on its financial statements.

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### 3. Marketable Securities

The marketable securities on hand at September 30, 2018, had a fair value of \$3,715,557 and a cost of \$5,940,166 (December 31, 2017 - \$3,028,373 and \$4,530,911). 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 September 30, 2018, had a carrying value of \$780,041 and a cost of \$534,181 (December 31, 2017 - \$1,202,206 and \$507,803). 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 (2017 - \$165,000) and fair value through profit or loss of \$615,041 (2017 - \$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 September 30, 2018 the outstanding amount is nil (December 31, 2017 – nil). 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 September 30, 2018, 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 \$216,530 (December 31, 2017 - \$203,279).

#### 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.

Balance – September 30, 2018	Level 1	Level 2	Level 3	Total
Marketable Securities	\$ 3,715,557	\$ -	\$ -	\$ 3,715,557
Investment in other companies	\$ 615,041	\$ -	\$ -	\$ 615,041
Total	\$ 4,330,598	\$ -	\$ -	\$ 4,330,598

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

Balance – December 31, 2017	Level 1	Level 2	Level 3	Total
Marketable Securities	\$ 2,976,706	\$ 11,667	\$ 40,000	\$ 3,028,373
Investment in other companies	\$ 1,037,206	\$ -	\$ -	\$ 1,037,206
Total	\$ 4,013,912	\$ 11,667	\$ 40,000	\$ 4,065,579

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

**7. Royalty Interest**

The Company entered into a purchase and sale agreement with Altius Royalty Corporation (the "purchaser") on November 1, 2017 with respect to certain of its mineral rights in the Rocanville Area of Saskatchewan. Pursuant to the terms of the purchase and sale agreement the Purchaser paid \$3,000,000 on closing and in addition, an annual royalty of \$500,000 for a term of ten years, conditional on certain potash production levels and grades of potash ore being maintained on an annual basis during the term of the agreement, of which the first year have been met.

**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 September 30, 2018 bank indebtedness was nil (December 31, 2017 – nil). To support the line of credit, the Company had cash of \$151,881 and marketable securities having a fair value of \$62,260 respectively (December 31, 2017 cash of \$147,708, and marketable securities having a fair value of \$65,740) being held in safekeeping by the bank.

**9. Loans Payable / Receivable**

The loans payable represent broker margin accounts. As at September 30, 2018 the balance was \$135,517 (December 31, 2017 - nil), and is 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.

The loan receivable, representing an advance to an unrelated company at September 30, 2018 was \$35,300. The loan bears interest at eight percent (8%) per annum to be calculated and paid annually from the date of advance. The loan receivable is due for repayment on January 19, 2020 and is unsecured.

**10. Share Capital**

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

	Number of shares	Value
Balance – September 30, 2018 and December 31, 2017	5,660,096	\$5,246,662

**11. Contributed Surplus**

The September 30, 2018 contributed surplus balance was \$883,200 (December 31, 2017 \$883,200). 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 September 30, 2018 (December 31, 2017 – 400,000). 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 September 30, 2018 and December 31, 2017, and changes during the period ended on those dates are presented in the following table:

	2018		2017	
	Number	Exercise price	Number	Exercise price
Outstanding and exercisable, beginning	400,000	\$0.60	400,000	\$0.60
Exercised	Nil	N/A	Nil	N/A
Expired	Nil	N/A	Nil	N/A
Granted	Nil	N/A	Nil	N/A
Outstanding, ending and exercisable	400,000	\$0.60	400,000	\$0.60

There were no stock options exercised in 2018 or 2017.

#### 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 share-based compensation expense and contributed surplus for options granted.

The weighted average remaining contractual life is 3.00 years.

### 13. Income Taxes

The Company's income tax is allocated as follows:

	September 30, 2018		December 31, 2017	
Current tax expense	\$	216,390	\$	521,343
Deferred tax recovery		-		(174,926)
	\$	216,390	\$	346,417

### 14. Related Party Transactions and Disclosure

Included in accounts receivable as at September 30, 2018 is an amount due from a related company that has a common director and officer of \$27,009 (December 31, 2017 - (\$1,852)). The amount receivable and/or 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 September 30, 2018, is an amount due to a related party who is a director, and officer of the Company of \$295 (December 31, 2017 - \$121).

Administrative fees were paid to a related party in the amount of \$1,589 for the nine months ended September 30, 2018 (2017 - \$860).

## Key management personnel, directors' compensation

	September 30, 2018		September 30, 2017	
Short-term employee benefits	\$	152,195	\$	152,195
Directors fees		7,500		9,000
Share-based compensation expense		nil		nil

## 15. Investment in petroleum interests

Balance -	December 31, 2016	\$	607,266
	Recovery		(3,275)
	Impairment loss recognized	(i)	(192,565)
Balance -	December 31, 2017	\$	411,426
	Additions		20,459
Balance -	September 30, 2018	\$	431,885

- (i) Based on a discounted cash flow analysis an impairment loss of \$192,565 was recognized in 2017. Key assumptions included a 12.5% discount rate on a twenty year cash flow projection utilizing the AECO-C spot price ranging from \$2.25 to \$4.63 per MCF for natural gas.

## 16. Commitments

The Company currently has no outstanding commitments.