McChip Resources Inc.

Financial Statements

December 31, 2020 and 2019

Independent Auditor's Report

MNP LLP

To the Shareholders of McChip Resources Inc.:

Opinion

We have audited the financial statements of McChip Resources Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019, and the statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. The other information also comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephanie Pottruff .

MNP LLP

Waterloo, Ontario

Chartered Professional Accountants

April 28, 2021

Licensed Public Accountants

MNP

McChip Resources Inc.

Statements of Financial Position

(expressed in Canadian dollars)

		As at December 31 2020	As at December 31 2019
Assets			
Current assets			
Cash		**$ 452,640**	$ 417,957
Accounts receivable	(Note 15)	**557,746**	554,049
Income tax receivable	(Note 14)	**65,791**	115,341
Marketable securities	(Note 3, 6, 8, 9)	**5,965,022**	4,899,766
		7,041,199	5,987,113
Non current assets			
Investment in other companies	(Note 4, 6)	**667,361**	514,876
Investment in petroleum interests	(Note 6, 16)	**344,058**	360,504
Abandonment deposit	(Note 17)	**85,712**	87,241
ROU asset	(Note 13)	**20,304**	-
Loan receivable	(Note 9)	**28,300**	28,300
		$ 8,186,934	$ 6,978,034
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	(Note 15)	**$ 199,522**	$ 202,888
Bank indebtedness	(Note 8)	**40,000**	10,000
Loans payable	(Note 9)	**570,417**	1,101,558
Lease liability	(Note 13)	**14,755**	-
		824,694	1,314,446
Non current liabilities			
Long term lease liability	(Note 13)	**6,840**	-
		831,534	1,314,446
Shareholders' Equity			
Share capital	(Note 10)	**5,246,662**	5,246,662
Contributed surplus	(Note 11, 12)	**897,200**	883,200
Surplus (deficit)		**1,211,538**	(466,274)
		7,355,400	5,663,588
		$ 8,186,934	$ 6,978,034

Subsequent events (Note 18)

Approved on behalf of the Board of Directors:

"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	Surplus (Deficit)	Shareholders' Equity
Balance at December 31, 2019		5,660,096	$ 5,246,662	$ 883,200	$ (466,274)	$ 5,663,588
Share based compensation	(Note 12)	-	-	14,000	-	14,000
Dividend paid			-	-	(113,202)	(113,202)
Net income		-	-	-	1,791,014	1,791,014
Balance at December 31, 2020		**5,660,096**	**$ 5,246,662**	**$ 897,200**	**$ 1,211,538**	**$ 7,355,400**
Balance at December 31, 2018		5,660,096	$ 5,246,662	$ 883,200	$ (629,713)	$ 5,500,149
Dividend paid					(169,803)	(169,803)
Net income		-	-	-	333,242	333,242
Balance at December 31, 2019		**5,660,096**	**$ 5,246,662**	**$ 883,200**	**$ (466,274)**	**$ 5,663,588**

The accompanying notes are an integral part of these financial statements

McChip Resources Inc.

Statements of Operations and Comprehensive Income

(expressed in Canadian dollars)

		For the year ended December 31	
		2020	2019
Revenue			
Investment in petroleum interests		**$ 28,598**	$ 114,555
Change in fair value of petroleum interests	(Note 16, 17)	**(37,703)**	(19,837)
Realized gain (loss) on sale of investment in other companies and marketable securities		**(274,683)**	346,511
Unrealized appreciation (depreciation) of investment in other companies and marketable securities		**2,105,922**	(13,075)
Other Income		**30,438**	67,705
Royalty	(Note 7)	**500,000**	500,000
		2,352,572	995,859
Expenses			
Administrative		**610,783**	623,075
Amortization		**1,291**	-
Share-based compensation		**14,000**	-
		626,074	623,075
Income before provision for income taxes		**1,726,498**	372,784
Provision (recovery) for income taxes			
Current	(Note 14)	**(64,516)**	(125,675)
Deferred	(Note 14)	**-**	165,217
		(64,516)	39,542
Net income and comprehensive income		**$ 1,791,014**	$ 333,242
Income per share			
Basic		**$ 0.32**	$ 0.06
Diluted		**$ 0.32**	0.06
Weighted average number of common shares outstanding			
Basic		**5,660,096**	5,660,096
Diluted		**5,662,139**	5,695,969

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	
	2020	2019
Operating activities		
Net income	**$ 1,791,014**	$ 333,242
Items not affecting cash:		
Deferred income taxes expense	**-**	165,217
Change in fair value of petroleum interests	**37,703**	19,837
Impairment of financial assets	**-**	7,000
(Gain) loss on sale of marketable securities and investments in other companies	**274,683**	(346,511)
Amortization	**1,291**	-
Share-based compensation	**14,000**	-
Unrealized (appreciation) depreciation of investment in other companies and marketable securities	**(2,105,922)**	13,075
	12,769	191,860
Increase in accounts receivable	**(3,697)**	(18,606)
Increase (decrease) in income taxes recoverable	**49,550**	(45,823)
Decrease in accounts payable and accrued liabilities	**(3,366)**	(13,720)
Cash provided by operating activities	**55,256**	113,711
Investing activities		
Investment in petroleum interests	**(21,257)**	(41,066)
Decrease in abandonment deposit fund	**1,529**	1,035
Sale of marketable securities and investments	**2,789,400**	2,810,723
Purchase of marketable securities	**(2,169,647)**	(3,483,989)
Purchase of investments in other companies	**(6,255)**	(18,065)
Cash provided by (used in) investing activities	**593,770**	(731,362)
Financing activities		
Increase in bank indebtedness	**30,000**	10,000
Increase (decrease) in loans payable	**(531,141)**	592,758
Dividend paid	**(113,202)**	(169,803)
Cash provided by (used in) financing activities	**(614,343)**	432,955
Net increase (decrease) in cash	**34,683**	(184,696)
Cash, beginning of year	**417,957**	602,653
Cash, end of year	**$ 452,640**	$ 417,957
Interest paid during the year	**$ 30,645**	$ 30,050
Income taxes (refunded) paid during the year	**$ (114,066)**	$ (79,852)

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. The registered office of the Company is Suite 1910, 130 Adelaide Street West, Toronto, ON, M5H 3P5.

The global outbreak of COVID-19 (coronavirus), has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

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 and for the year ended December 31, 2020 were approved and authorized for issue by the board of directors on April 28, 2021.

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.

c) Revenue Recognition

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

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, and is not subject to a significant reversal in revenue. The Company does not operate any of the interests it has in oil and natural gas.
Any change in fair value in investments in petroleum interests is also included as part of revenue.

Royalty income is recognized as earned as per the terms of the overriding royalty agreement in accordance with IFRS 15. Revenue is recognized when it is no longer susceptible to market factors and is no longer subject to a significant reversal in revenue.

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 as part of the "Unrealized appreciation (depreciation) of investment in other companies and marketable securities".

d) Cash

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

e) Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts receivable, abandonment deposit and loan receivable.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash, marketable securities, investment in petroleum interests and investment in other companies.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company groups its financial assets into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1 – Receivables that have not experienced a significant increase in credit risk since initial recognition;
Stage 2 – Receivables that have experienced a significant increase in credit risk since initial recognition;
Stage 3 – Receivables for which there is objective evidence of impairment.

Significant increase in credit risk

The Company has established a policy to assess, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. IFRS 9 provides a rebuttable presumption that a significant increase in credit risk ("SICR") has occurred if contractual payments are more than 30 days past due. The Company has not rebutted this presumption. Additional risk factors may be considered such as changes in financial condition of the borrower and other borrower specific information and other forward looking information.

Definition of default

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In certain other cases, where qualitative thresholds indicate unlikeliness to pay as a result of a credit event, the Company carefully considers whether the event should result in an assessment at Stage 2 or 3 for ECL calculations.

The Company applies the simplified approach for accounts receivable. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statements of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

The financial instruments of the Company are classified as follows:

	IFRS 9	
	Classification	**Measurement**
Cash	FVTPL	Fair value
Accounts receivable / abandonment deposit	Amortized cost	Amortized cost
Loan receivable	Amortized cost	Amortized cost
Marketable securities	FVTPL	Fair value
Investment in petroleum interests	FVTPL	Fair value
Investment in other companies	FVTPL	Fair value
Bank indebtedness	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Lease liability	Other financial liabilities	Amortized cost

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

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. These investments are in shares or other financial instruments of companies predominately listed on a recognized exchange and are natural resource based.

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.

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.

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 in accordance 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 fair value of petroleum interests, fair value of share purchase warrants, impairment of financial assets and investments in securities not quoted in an active market.

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

Where the fair values of financial assets recorded on the statements 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.

Fair value of share purchase warrants:

The fair value of share purchase warrants is valued either at their quoted market values if traded on an active market, impairment of financial assets, or valued through specified option pricing models based on specific criteria.

The model used by management is the Black – Scholes model which requires six key inputs to determine a value for a share purchase warrant: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control. For example, a longer expected life of the warrant or a higher volatility number used would result in an increase in the warrant value.

Impairment of financial assets:

The measurement of impairment losses under IFRS 9 requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

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 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 year. Diluted IPS is determined by adjusting the income 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 weighted average number of common shares outstanding are increased to include additional shares from the assumed exercise of share options, if dilutive.

m) Impairment

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 year in which the dividends are approved by the Board of Directors.

o) New accounting standards adopted by the Company

IFRS 16 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the leases as an operating expense on a straight-line basis over the term of the lease.

The Company presents right-of-use assets in "ROU asset" and lease liabilities in "Lease liabilities" in the statement of financial position.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability (and makes corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which a revised discount rate is used)
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the liability is remeasured by discounting the revised lease payments using a revised discount rate

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. The costs are included in the related right-of-use asset, unless the costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at commencement date of the lease.

The Company applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Interpretations Committee (IFRIC) interpretation, incorporated into Part 1 of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2017, to specify how to reflect the effects of uncertainty in accounting of income taxes. IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current or deferred income tax liabilities and assets. However, it does not provide a specific requirement for the accounting for income tax when the application of tax law to a particular transaction or circumstances is uncertain. As a result, the interpretation aims to reduce the diversity in how entities recognise and measure tax liability or tax asset when there is uncertainty over income tax treatments. For the year beginning January 1, 2019 the implementation of IFRIC 23 did not have a material effect on the financial statements.

3. Marketable Securities

The marketable securities on hand at December 31, 2020, had a fair value of $5,965,022 and a cost of $6,707,998 (December 31, 2019 - $4,899,766 and $7,602,289). These marketable securities are in shares and warrants 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.

4. Investment in Other Companies

The investment in other companies at December 31, 2020 amount to $667,361 and have a cost of $396,475 (December 31, 2019 - $514,876 and $390,221). 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.

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.

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 loan receivable. In the opinion of management, the credit risk with respect to these instruments is low. Accounts receivable represent amounts due from petroleum interest revenue. Management has assessed that there is no expected credit loss attributed to accounts receivable.

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, 2020 and December 31, 2019 the outstanding amount is $40,000 and $10,000 respectively. The $40,000 represents an interest free CEBA (Canada Emergency Business Account) loan, $10,000 of which was forgivable and the balance was repaid April 15, 2021.

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. The Company's short-term bank indebtedness related to the Company's broker account, which carries no interest rate, and was secured by investments held by the Company, and had no set terms of repayment. 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 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 and, loans payable 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, and investment in petroleum interest are carried at fair value.

Sensitivity Analysis
As at December 31, 2020, 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 $313,945 (December 31, 2019 - $255,067).

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 – December 31, 2020	Level 1	Level 2	Level 3	Total
Cash	$ 452,640	$ -	$ -	$ 452,640
Marketable Securities	5,611,533	328,489	25,000	5,965,022
Investment in other companies	667,361	-	-	667,361
Investment in petroleum interests	-	-	344,058	344,058
Total	$ 6,731,534	$ 328,489	$ 369,058	$ 7,429,081

Balance – December 31, 2019	Level 1	Level 2	Level 3	Total
Cash	$ 417,957	$ -	$ -	$ 417,957
Marketable Securities	4,683,373	216,393	-	4,899,766
Investment in other companies	514,876	-	-	514,876
Investment in petroleum interests	-	-	360,504	360,504
Total	$ 5,616,206	$ 216,393	$ 360,504	$ 6,193,103

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.

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, 2020 bank indebtedness was $nil, (December 31, 2019 – $10,000). To support the line of credit, the Company had cash of $165,304 and marketable securities having a fair value of $46,200 respectively (December 31, 2019 cash of $163,095, and marketable securities having a fair value of $45,040) held as security. In addition, the Company received an interest free $40,000 CEBA (Canada Emergency Business Account) loan,$10,000 forgivable and the balance repaid on April 15, 2021.

9. Loans Payable / Receivable

The loans payable represents broker margin accounts. Broker margin accounts consists of cash owed by the Company to its brokers. As at December 31, 2020 the balance was $570,417 (December 31, 2019 - $1,101,558) 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 broker margin account is due on demand.

The net loan receivable, representing an advance to an unrelated company at December 31, 2020 was $28,300 (2019 – $28,300). The gross loan receivable of $35,300 bears interest at eight percent (8%) per annum to be calculated and paid

annually from the date of advance. The loan receivable was amended subsequent to year end and is now due for repayment on January 19, 2022 and is unsecured. Management have concluded that the credit risk with respect to this instrument is at stage 2 and has been assessed on a life time expected credit loss (Lifetime ECL) since the amount due is in 2022. Management have determined that an ECL rate of 20% on principal of $7,000 credit loss provision is reasonable. This is due primarily to the maturity date extension requested by the Holder of the loan, which initially fell due on January 19, 2019.

10. Share Capital

a) Authorized: Unlimited common shares

b) Common shares issued:

	Number of shares	Value
Balance – December 31, 2020 and December 31, 2019	5,660,096	$5,246,662

Earnings per share:

The following table reconciles the numerator and denominator for the calculation of basic and diluted earnings per share:

	Year ended December 31, 2020	Year ended December 31, 2019
Numerator		
Net income attributed to common shareholders	$ 1,791,014	$ 333,242
Basic		
Weighted average number of shares outstanding	5,660,096	5,660,096
Effect of dilutive securities adjusted for exercise of options	2,043	35,873
Diluted weighted average number of shares outstanding	5,662,139	5,695,969
Basic earnings per share	$ 0.32	$ 0.06
Diluted earnings per share	0.32	0.06

11. Contributed Surplus

The December 31, 2020 contributed surplus balance was $897,200 (December 31, 2019 $883,200). These amounts are related to stock options that have been granted and 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, 2020 (December 31, 2019 – 350,000). Effective September 26, 2016 stock options on 350,000 common shares were granted to directors, officers and employees of the Company at $0.60 per share to expire September 25, 2021 and on August 26, 2020, 50,000 at $0.45 per share to expire August 25, 2025.

A summary of the status of the Company's outstanding stock options as of December 31, 2020 and December 31, 2019, and changes during the period ended on those dates are presented in the following table:

	2020		2019	
	Number	Exercise price	Number	Exercise price
Outstanding and exercisable, beginning	350,000	$0.60	350,000	$0.60
Exercised	Nil	N/A	Nil	N/A
Expired	Nil	N/A	Nil	N/A
Granted	50,000	$0.45	Nil	N/A
Outstanding, ending and exercisable	400,000	$0.58	350,000	$0.60

Stock option disclosure

The fair market value of stock options granted on August 26, 2020 that expire August 25, 2025 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	0.33%
Expected stock volatility	76.76%
Forfeiture rate	0.00%
Weighted-average expected life in years	5.00
Weighted-average share price	$0.45
Exercise price	$0.45

The effect in accounting for the share-based compensation of $14,000 determined for the year ended December 31, 2020, was the recognition of share-based compensation expense and contributed surplus for options granted. The options vested fully on grant.

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 options vested fully on grant.

The weighted average remaining contractual life is 1.17 years.

13. Leases

The Company has a lease for head office space that was entered into during the year with a third party. The lease is reflected on the statement of financial position as a right-of-use asset and lease liability. The initial term of the lease is twenty-two months beginning December 1, 2020 and ending August 1, 2022. The incremental borrowing rate and term length used in the calculation of the right-of-use asset and discounted lease liability amounts are 2.95% and 21 months, respectively.

Property Plant and Equipment

		ROU Asset
Cost	$	-
Balance: January 1, 2019		-
Additions		-
Disposals		
Balance: December 31, 2019		-
Additions		21,595
Disposals		-
Balance: December 31, 2020	$	21,595

Accumulated amortization

Balance: January 1, 2019		-
Amortization		-
Disposals		-
Balance: December 31, 2019		-
Amortization		1,291
Disposals		-
Balance: December 31, 2020	$	1,291

Lease liabilities

The continuity of lease liability is as follows:

		Liability
Balance - December 31, 2019	$	-
Contractual payments		27,562
Less: Amount attributable to interest		(455)
Less: Security deposit		(5,512)
Balance - December 31, 2020	$	21,595
Less: current portion -due within one year		14,755
Non-current portion of lease liability - due within second year	$	6,840

14. Income Taxes

The effective combined Canadian federal and provincial statutory income tax rate for the current year is 26.37% (2019 – 26.50%) and the combined enacted tax rate for deferred tax assets and liabilities is 26.50% (2019 – 26.50%). The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rates is as follows:

		December 31, 2020		December 31, 2019
Net income before recovery of income taxes	**$**	**1,726,498**	$	372,784
Expected income tax (recovery) expense	**$**	**455,283**	$	98,791
Tax rate changes and other adjustments		**(2,210)**		(58,766)
Unrealized gain		**(277,669)**		(31,396)
Permanent differences		**40,065**		(6,524)
Non-taxable dividends		**(4,539)**		(4,718)
Change in valuation allowance		**(275,446)**		42,155
Change in tax benefits not recognized		**-**		-
Income tax (recovery) expense	**$**	**(64,516)**	$	39,542

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

Current tax (recovery) expense	**$**	**(64,516)**	$	(125,675)
Deferred tax (recovery) expense		**-**		165,217
	$	**(64,516)**	$	39,542

Deferred tax

The following table summarizes the components of deferred tax:

Deferred Tax Assets		**December 31, 2020**		December 31, 2019
Lease liability	**$**	**5,343**		
Property, plant and equipment		**-**	$	-
Capital losses carried forward		**35,644**		16,492
Deferred Tax Liabilities				
Investment in other companies	**$**	**(35,644)**	$	(16,492)
ROU asset		**(5,343)**		-
Net deferred tax asset	**$**	**-**	$	-

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 asset		**2020**		2019
Balance at the beginning of the year	**$**	**-**	$	165,217
Recognized in profit/loss		**-**		(165,217)
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 deductive temporary differences:

		2020		2019
Property, plant and equipment	**$**	**15,419**	$	20,570
Lease liability		**1,292**		-
Intangible assets		**11,387**		12,244
Marketable securities		**28,923**		1,880,564
Capital losses carried forward		**1,931,264**		1,957,185
Loan receivable		**7,000**		-
CEBA loan		**10,000**		-
Investment in petroleum interests		**421,919**		471,378
Others		**-**		53,679
	$	**2,427,204**	$	4,395,620

The net capital loss carry forward may be carried forward indefinitely, but can only be 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 taxable profit will be available against which the Company can utilize the benefits there from.

15. Related Party Transactions and Disclosure

Included in accounts receivable as at December 31, 2020 is an amount due from a related company that has a common director and officer of $7,098 (December 31, 2019 – $5,147). 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 receivable as at December 31, 2020, is an amount due from a related party who is a director, and officer of the Company of nil (December 31, 2019 – $20,000).

Included in accounts receivable as a December 31, 2020 is an amount due from a related company that has a common director and officer of $12,508 (December 31, 2019 - $0). The amount receivable was the result of the Company's lease for head office space.

Included in accounts payable as at December 31, 2020, is an amount due to a related party who is a director, and officer of the Company of $230 (December 31, 2019 - $91).

Administrative fees were paid to a related party in the amount of $966 for the year ended December 31, 2020 (December 2019 - $2,192).

Key management personnel, directors' compensation

		December 31, 2020		December 31, 2019
Short-term employee benefits	$	238,927	$	221,927
Directors' fees		12,000		12,000
Share-based compensation expense		nil		nil

16. Investment in petroleum interests

Balance -	December 31, 2018		$	339,275
	Additions			41,066
	Change in fair value	(i)		(19,837)
Balance -	December 31, 2019		$	360,504
	Additions			21,257
	Change in fair value	(ii)		(37,703)
Balance -	December 31, 2020		$	344,058

(i) Based on a discounted cash flow analysis a change in fair value of $19,837 was recognized in 2019. Key assumptions included a 12.5% discount rate on a twenty year cash flow projection utilizing the AECO–C spot price ranging from $1.68 to $3.17 per MCF for natural gas.

(ii) Based on a discounted cash flow analysis a change in fair value of $37,703 was recognized in 2020. Key assumptions included a 12.5% discount rate on a twenty year cash flow projection utilizing the AECO–C spot price ranging from $2.51 to $3.21 per MCF for natural gas.

17. Abandonment Deposit

The abandonment deposit is held with Signalta Resources Limited for the purposes of the future well abandonment for the Company's investment in petroleum interests. The Company has made all requested upfront payments for future reclamation costs as at December 31, 2020.

18. Subsequent Events

The Company declared a dividend of $0.04 per common share on January 5, 2021. The dividend is designated by the Company to be an ineligible dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial or territorial legislation.

Subsequent to year end, the Company repaid its interest free CEBA loan.