

STANDARD EXPLORATION LTD.

Financial Statements

For the Years ended December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of Standard Exploration Ltd.

We have audited the accompanying financial statements of Standard Exploration Ltd., which comprise the statement of financial position as at December 31, 2016, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Standard Exploration Ltd. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of Standard Exploration Ltd. as at December 31, 2015 and for the year the ended, were audited by another auditor who expressed an unmodified opinion on those statements on April 27, 2016.

Calgary, Alberta
April 25, 2017

MNP LLP

Chartered Professional Accountants

MNP

Standard Exploration Ltd.

Statements of Financial Position

December 31, 2016 and 2015

(amounts in Canadian dollars)

| | Notes | December 31, 2016 | December 31, 2015 |
|--|----------|----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 603,637 | \$ 889,587 |
| Accounts receivable | 4(c) | 131,905 | 102,026 |
| Deposits and prepaid expenses | 16 | 123,098 | 124,216 |
| Total current assets | | 858,640 | 1,115,829 |
| Exploration and evaluation assets | 6 | - | 2,382,863 |
| Property and equipment | 7 | 3,616,303 | 4,157,793 |
| Total assets | | \$ 4,474,943 | \$ 7,656,485 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 4(d), 17 | \$ 193,480 | \$ 325,277 |
| Total current liabilities | | 193,480 | 325,277 |
| Decommissioning provisions | 8 | 1,268,533 | 1,327,657 |
| Total liabilities | | 1,462,013 | 1,652,934 |
| Shareholders' Equity | | | |
| Share capital | 10 | 15,922,585 | 15,922,585 |
| Contributed surplus | | 3,878,166 | 3,834,334 |
| Deficit | | (16,787,821) | (13,753,368) |
| Total shareholders' equity | | 3,012,930 | 6,003,551 |
| Total liabilities and shareholders' equity | | \$ 4,474,943 | \$ 7,656,485 |
| Contingency | 4(d) | | |
| Commitments | 16 | | |
| Subsequent event | 18 | | |

See accompanying notes to the financial statements.

Approved by the Board of Directors,
(signed)
"Tom MacKay"
Director

(signed)
"David Richards"
Director

Standard Exploration Ltd.
Statements of Loss and Comprehensive Loss
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

| | Notes | December 31, 2016 | December 31, 2015 |
|--|-------|----------------------|----------------------|
| Revenue | | | |
| Petroleum and natural gas sales, net of royalties | 12 | \$ 813,353 | \$ 964,752 |
| Expenses | | | |
| Exploration and evaluation | 6 | 2,462,647 | 1,463,182 |
| Production and operating | | 144,994 | 317,905 |
| Transportation | | 66,352 | 74,655 |
| Depletion and depreciation | 7 | 491,612 | 557,058 |
| Impairment of property and equipment | 7 | - | 49,000 |
| General and administrative | 15,17 | 626,180 | 673,100 |
| Stock-based compensation | 11(b) | 43,832 | 168,469 |
| Total expenses | | 3,835,617 | 3,303,369 |
| Loss before the following: | | (3,022,264) | (2,338,617) |
| Net finance income (loss) | 13 | (12,189) | 41,584 |
| Loss before income taxes | | (3,034,453) | (2,297,033) |
| Deferred tax recovery | 9 | - | 162,250 |
| Loss and comprehensive loss for the year | | \$ (3,034,453) | \$ (2,134,783) |
| Loss per share | 14 | | |
| Basic and diluted | | (\$0.03) | (\$0.02) |

See accompanying notes to the financial statements.

Standard Exploration Ltd.
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

| | Notes | Number of Shares | Share Capital Stated Value | Contributed Surplus | Deficit | Total Shareholders' Equity |
|--|-------|---------------------|----------------------------------|------------------------|-----------------------|----------------------------------|
| Balance at December 31, 2014 | | 121,234,854 | \$ 15,922,585 | \$ 3,665,865 | \$(11,618,585) | \$ 7,969,865 |
| Stock-based compensation related to stock options | 11(b) | - | - | 168,469 | - | 168,469 |
| Net loss for the year | | - | - | - | (2,134,783) | (2,134,783) |
| Balance at December 31, 2015 | | 121,234,854 | \$ 15,922,585 | \$ 3,834,334 | \$(13,753,368) | \$ 6,003,551 |
| Stock-based compensation related to stock options | 11(b) | - | - | 43,832 | - | 43,832 |
| Net loss for the year | | - | - | - | (3,034,453) | (3,034,453) |
| Balance at December 31, 2016 | | 121,234,854 | \$ 15,922,585 | \$ 3,878,166 | \$(16,787,821) | \$ 3,012,930 |

See accompanying notes to the financial statements.

Standard Exploration Ltd.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

| | Notes | December 31, 2016 | December 31, 2015 |
|--|-------|----------------------|----------------------|
| Cash and cash equivalents provided by (used in): | | | |
| Operating activities | | | |
| Loss for the year | | \$ (3,034,453) | \$ (2,134,783) |
| Adjustments for: | | | |
| Depletion and depreciation | | 491,612 | 557,058 |
| Stock-based compensation | | 43,832 | 168,469 |
| Net finance income | | 12,189 | (41,584) |
| Deferred tax recovery | | - | (162,250) |
| Impairment of property and equipment | | - | 49,000 |
| Exploration and evaluation | 6 | 2,382,863 | 1,397,417 |
| Cash decommissioning expenditures | 8 | (27,420) | - |
| Changes in non-cash working capital | 5 | (159,763) | 148,596 |
| Net cash used in operating activities | | (291,140) | (18,077) |
| Investing activities | | | |
| Additions to exploration and evaluation assets | | - | (2,960,971) |
| Changes in non-cash working capital | 5 | - | (277,285) |
| Net cash used in investing activities | | - | (3,238,256) |
| Financing activities | | | |
| Interest received | | 5,985 | 17,971 |
| Interest paid | | - | (794) |
| Changes in non-cash working capital | 5 | (795) | 795 |
| Net cash from financing activities | | 5,190 | 17,972 |
| Change in cash and cash equivalents | | (285,950) | (3,238,361) |
| Cash and cash equivalents, beginning of year | | 889,587 | 4,127,948 |
| Cash and cash equivalents, end of year | | \$ 603,637 | \$ 889,587 |

See accompanying notes to the financial statements.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

1. General business description

Standard Exploration Ltd. ("Standard" or the "Corporation") is engaged in the exploration for, development of and production of petroleum and natural gas in Alberta. The Corporation is a publicly traded company, incorporated and domiciled in Canada. The address of business of the Corporation is 100, 718 – 15th Avenue SW, Calgary, Alberta, Canada, T2R 0R6.

2. Basis of preparation

(a) Statement of compliance

These financial statements present the Corporation's results of operations and financial position as at and for the years ended December 31, 2016 and 2015. They 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 Interpretations Committee ("IFRIC") in effect on January 1, 2016.

These financial statements were approved and authorized for issuance by the Board of Directors on April 25, 2017.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

The following discussion sets forth management's most critical estimates, judgments and assumptions in preparation of the financial statements:

Identification of cash-generating units (CGUs)

The Corporation's petroleum and natural gas assets are grouped into CGUs based on the ability of these assets to generate separately identifiable independent cash inflows. The classification of assets into CGUs requires significant judgment and interpretation. Management considers factors such as integration among assets, shared infrastructure, common sales points, geography and how management makes decisions about the Corporation's operations.

Depletion, depreciation and valuation of property and equipment

The amounts recorded for depletion and depreciation and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future petroleum and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets, discount rates and other relevant assumptions.

Reserves

The Corporation's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 - Standards of Disclosure for Petroleum and Gas Activities*. The reserve assessment was completed by an external third party engineering firm for the years ended December 31, 2016 and 2015.

Valuation of exploration and evaluation assets

The valuation of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

Decommissioning provisions

The calculation of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of collectability and provisions for doubtful accounts.

Valuation of contingent liability

The valuation of the contingent liability relating to the dissenting shareholder is based on management's best estimate of the ultimate settlement (note 4(d)).

Income taxes

The amounts recorded for deferred taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently enacted or substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Stock options and warrants

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the Corporation's share price, market price of the Corporation's shares at the grant date, expected lives of the options and warrants, risk-free interest rate, forfeiture rate, expected dividends and other relevant assumptions.

3. Significant accounting policies

(a) Joint arrangements

Many of the Corporation's petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The Corporation has assessed the nature of its joint arrangements and determined them to be joint operations. The financial statements include the Corporation's share of these jointly controlled assets, liabilities, the relevant revenue and related expenses.

(b) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue. The Corporation had no cash equivalents as at December 31, 2016 or 2015.

(c) Exploration and evaluation expenditures and property and equipment

(i) Exploration and evaluation assets

Pre-licence expenditures incurred before the Corporation has obtained legal rights to explore an area are expensed as exploration and evaluation expenditures.

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

(ii) Property and equipment

All costs directly associated with the development and production of petroleum and natural gas interests are capitalized by components (i.e. by well, area or combination thereof) within cash generating units and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

exploration and evaluation assets.

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

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in income (loss).

(iii) Depletion and depreciation

Petroleum and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude petroleum on the basis of six thousand cubic feet of gas to one barrel of petroleum. Changes to estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

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

Office furniture and equipment, referred to as corporate and other, are depreciated on a declining balance basis at a rate of 30% approximating their estimated useful lives.

(d) Impairment of non-financial assets

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

For the purposes of assessing impairment, property and equipment are grouped into CGUs, defined as the lowest levels for which there are separately identifiable independent cash inflows. Any goodwill is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less estimated costs of disposal may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

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

Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are tested for impairment separately. If, at any time, it is determined that the Corporation has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount and the amount of the write-down is expensed.

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

(e) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(f) Decommissioning provisions

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Corporation's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using a pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to finance expense. Changes in the future cash flow estimates resulting from revisions to the estimated timing, amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures, up to the recorded liability recorded at the time, are charged against the provision as the costs are incurred.

(g) Taxes

Tax expense is comprised of current and deferred tax. Current tax expense is recognized in the

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current tax is the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(h) Revenue

Revenue from the production of petroleum and natural gas is recognized when title passes from the Corporation to the customer. Revenue represents the Corporation's share and is recorded net of royalty obligations to governments and other mineral interest owners. Transportation costs are reported as a separate expense and are not netted against revenue.

(i) Finance income and expenses

Finance income includes interest income which is recognized in income as it accrues on a time proportion basis, using the effective interest method, and revaluation of the contingent liability.

Finance expenses include interest expense on any borrowings, accretion of the discount on decommissioning provisions and impairment losses recognized on financial assets.

Borrowing costs are recognized in the statement of income (loss) in the period in which they are incurred using the effective interest method.

(j) Share-based payments

Stock options granted to directors, officers and employees of the Corporation and warrants are accounted for using the fair value method based on the estimated fair value of the stock options and warrants at the grant date using the Black-Scholes option pricing model.

The Corporation measures share based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options/warrants granted is measured using the Black-Scholes option pricing model.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

Each tranche in a stock option award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(k) Flow-through shares and warrants

From time to time, the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares and warrants. Under the terms of the flow-through agreements, the tax attributes of the related expenditures are renounced to subscribers. The amount recorded to share capital or warrants on flow-through issuances is equal to the estimated fair value of the common shares or warrants, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received and the stated capital recorded is a liability ("flow-through share premium"), until qualifying expenditures are incurred. When the expenditures are incurred the resulting deferred tax liability is recorded through income tax expense less the reversal of the flow-through share premium previously reported.

(l) Income (loss) per share

Income (loss) per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during the period. The Corporation computes the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money share options are used to purchase common shares at average market prices.

(m) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost".

Financial assets and financial liabilities at "fair value through profit or loss" are either classified as "held-for-trading" or "designated at fair value through profit or loss" and are measured at fair value with changes in fair value recognized in the statement of loss and comprehensive loss. Transaction costs are expensed when incurred. The Corporation has designated cash and cash equivalents as "fair value through profit or loss". Financial assets and financial liabilities classified as "loans and receivables", "held-to-maturity", or "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method of amortization. "Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. "Held-to-maturity" financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. "Financial liabilities measured at amortized cost" are those financial liabilities that are not designated as "fair value through profit or loss" and that are not derivatives. The Corporation has designated accounts receivable and deposits as "loans and receivables" and accounts payable and accrued liabilities as "financial liabilities measured at amortized cost".

Financial assets classified as "available-for-sale" are measured at fair value, with changes

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Corporation currently has no financial instruments included in this category.

(ii) *Equity instruments*

The Corporation's outstanding common shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares and warrants are recognized as a deduction from equity, net of any tax effects.

(iii) *Impairment*

The Corporation assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through profit or loss" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of loss and comprehensive loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(n) New accounting policies:

During the year ended December 31, 2016, the Corporation did not adopt any new or revised accounting standards that had a material effect on the Corporation.

(o) Future accounting pronouncements:

The following are future accounting pronouncements that may impact the Corporation's financial statements:

- *IFRS 9, "Financial Instruments" ("IFRS 9")* provides a comprehensive new standard for accounting for all aspects of financial instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Requirements for financial liabilities were added to IFRS 9 whereby the fair value option requires different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

IFRS 9 introduces a single, forward-looking 'expected loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is available for earlier adoption. The Corporation is in the process of evaluating the impact that IFRS 9 may have

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

on the Corporation's financial statements.

- *IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")* provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the Corporation's financial statements.
- *IFRS 16, "Leases" ("IFRS 16")*. The new standard requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases on low-value assets are exempt from the requirement, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019 and is to be applied retrospectively. The Corporation has not determined the impact of the new standard on its financial statements

4. Financial instruments and risk management

(a) Risk management overview

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements. The Corporation employs risk management strategies and policies to ensure that any exposure to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, the Corporation's management has the responsibility to administer the strategies and monitor these risks.

(b) Fair value of financial instruments

The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, which can be substantially observed or corroborated in the marketplace. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on a Level 1 designation.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

Cash and cash equivalents

The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivable

Substantially all of the Corporation's accounts receivable are due from purchasers of the Corporation's petroleum and natural gas production, joint interest partners and government agencies, and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalation costs and the risk of unsuccessful drilling. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint interest partners, however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

Receivables from petroleum and natural gas marketers are generally collected on the 25th day of the month following production and sale. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit. During 2016 and 2015, the Corporation has not experienced any collection issues with its marketers.

During the years ended December 31, 2016 and 2015, the Corporation sold a substantial portion of its production to two marketers. Sales to these customers aggregated approximately \$0.93 million or 100% (December 31, 2015 - \$1.12 million or 100%) of total petroleum and natural gas sales. At December 31, 2016, amounts due from these customers included in accounts receivable totalled \$110,412 (December 31, 2015 - \$77,142).

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

As at December 31, 2016 and 2015, the Corporation's accounts receivable were comprised of the following:

| | December 31, 2016 | December 31, 2015 |
|---------------------------------|------------------------------|------------------------------|
| Petroleum and natural gas sales | \$ 110,412 | \$ 77,142 |
| Joint interest partners | 920 | 1,790 |
| GST | 12,743 | 21,526 |
| Other | 7,830 | 1,568 |
| | \$ 131,905 | \$ 102,026 |
| 0 to 30 days | \$ 90,616 | \$ 74,216 |
| 31 to 60 days | 21,003 | 13,291 |
| 61 to 90 days | - | - |
| Greater than 90 days | 20,286 | 14,519 |
| | \$ 131,905 | \$ 102,026 |

The Corporation considers amounts greater than 90 days past due and establishes an allowance for doubtful accounts based on management's assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. During the year ended December 31, 2016, the Corporation recorded bad debt of \$Nil (year ended December 31, 2015 - \$2,334) related to one joint interest partner in receivership. The bad debt has been included in general and administrative expense for the year ended December 31, 2015.

Deposits

Deposits are held by government agencies and as such, the exposure to credit risk is minimal.

d) *Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due by balancing capital and operating expenditures with available cash flow. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future equity and debt financings.

Accounts payable and accrued liabilities

The Corporation's trade accounts payable are normally due within 30 to 60 days from the date of invoice.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

The Corporation's accounts payable and accrued liabilities as at December 31, 2016 and 2015 are comprised of the following:

| | December 31, 2016 | December 31, 2015 |
|----------------------------|------------------------------|------------------------------|
| Capital expenditures | \$ 3,736 | \$ - |
| General and administrative | 41,502 | 65,256 |
| Operating | 114,292 | 229,261 |
| Other | 33,950 | 30,760 |
| | \$ 193,480 | \$ 325,277 |
| 0 to 30 days | \$ 45,245 | \$ 101,111 |
| 31 to 60 days | 19,352 | 19,112 |
| 61 to 90 days | 9,279 | 5,610 |
| Greater than 90 days | 119,604 | 199,444 |
| | \$ 193,480 | \$ 325,277 |

A significant portion of the Corporation's accounts payable balances greater than 90 days are in dispute.

During the year ended December 31, 2015, the Corporation reduced their estimate of the liability relating to the fair value of the Standard common shares and reimbursement of estimated legal fees offered to Canadian Energy Exploration Inc. ("CEEI"), a shareholder who exercised dissent rights relating to the Corporation's acquisition of CEEI shares in 2012 by \$45,000 which has been included in finance income on the statement of loss and comprehensive loss. At December 31, 2016 and 2015, the estimated liability included in accounts payable and accrued liabilities is \$29,965. The Corporation and CEEI amalgamated on January 1, 2013. During 2015, the shareholder who exercised his dissent rights filed an application in the Court of Queen's Bench of Alberta to fix the fair value of the dissenting shareholder's shares in CEEI. The Corporation and its legal counsel are in the process of resolving the matter through the courts. On March 4, 2016, Standard served the shareholder with a Formal Offer to Settle for 937,032 common shares of Standard and reimbursement of legal fees up to \$20,000, which expired on May 4, 2016. To the date of authorization to issue these financial statements, the shareholder has not responded to the Formal Offer.

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's net income (loss) or the value of financial instruments and relate to risks that are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks are as follows:

Foreign currency risk

Prices for petroleum are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Corporation will be influenced by both U.S. and Canadian demand and the corresponding North American supply, and by imports of liquefied natural gas. An increase (decrease) in the value of the Canadian dollar relative to the U.S. dollar

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

will decrease (increase) the revenues received from the sale of petroleum and natural gas commodities. The impact of such exchange rate fluctuations cannot be accurately quantified.

As at and for the years ended December 31, 2016 and 2015, the Corporation had no forward foreign exchange contracts in place nor any working capital items denominated in foreign currencies.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk as its cash deposits bear interest at variable rates. For the year ended December 31, 2016, a 1% increase in interest rates would increase income by approximately \$5,000 (year ended December 31, 2015 - \$7,000).

Commodity price risk

The Corporation is exposed to fluctuations in commodity prices for crude oil, natural gas, and natural gas liquids. Commodity prices are affected by many factors including supply, North American and World demand, foreign exchange rates, weather patterns and geo-political influences. The Corporation currently does not use financial hedges to manage the Corporation's exposure to commodity price fluctuations and therefore has no related financial instruments.

For the year ended December 31, 2016, the Corporation's loss and net comprehensive loss would have fluctuated by approximately \$23,407 for each \$1.00 change in crude oil prices (December 31, 2015 - \$25,530)

(f) **Capital management**

The Corporation's capital management policy is to maintain a strong capital base that optimizes the Corporation's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Corporation maintains a flexible capital structure to maximize its ability to pursue petroleum and natural gas exploration and acquisition opportunities and sustain the future development of the business. The Corporation monitors the level of risk associated for each capital project to balance the proportion of debt and equity in its capital structure. The Corporation's officers are responsible for managing the Corporation's capital and do so through quarterly meetings and regular reviews of financial information. The Corporation's directors are responsible for overseeing this process. The Corporation considers its capital structure to include working capital.

The Corporation monitors its capital based on projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Corporation prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Corporation's management and approved by or reviewed with the Corporation's Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Corporation may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Corporation's ability to raise additional debt or equity financing is impacted by external conditions, including future commodity prices and global economic conditions. The Corporation continually monitors business conditions including changes in economic conditions, the risk of its drilling programs, forecasted commodity prices, and potential corporate or asset acquisitions.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

The Corporation's defined capital as at December 31, 2016 and 2015 is as follows:

| | December 31, 2016 | December 31, 2015 |
|------------------------|--------------------------|--------------------------|
| Current assets | \$ 858,640 | \$ 1,115,829 |
| Current liabilities | (193,480) | (325,277) |
| Working capital | \$ 665,160 | \$ 790,552 |

The Corporation is not required to meet any financial covenants and is not subject to any other externally imposed capital requirements. There has been no change to management's approach to managing capital during the years ended December 31, 2016 and 2015.

5. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|--|---|---|
| Sources (uses) of cash: | | |
| Accounts receivable | \$ (29,879) | \$ 86,194 |
| Deposits and prepaid expenses | 1,118 | 23,726 |
| Accounts payable and accrued liabilities | (131,797) | (237,814) |
| | \$ (160,558) | \$ (127,894) |
| Related to operating activities | \$ (159,763) | \$ 148,596 |
| Related to investing activities | - | (277,285) |
| Related to financing activities | (795) | 795 |
| | \$ (160,558) | \$ (127,894) |

During the year ended December 31, 2015, the decrease in accounts payable and accrued liabilities of \$45,000 relating to financing activities is a non-cash transaction as this relates to the revaluation of the contingent liability (note 4(d)).

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

6. Exploration and evaluation assets and expenses

| | |
|------------------------------|--------------|
| Balance at December 31, 2014 | \$ 689,357 |
| Additions | 2,960,971 |
| Impairment | (1,370,513) |
| Decommissioning provisions | 103,048 |
| <hr/> | |
| Balance at December 31, 2015 | \$ 2,382,863 |
| Impairment | (2,382,863) |
| <hr/> | |
| Balance at December 31, 2016 | \$ - |

During the year ended December 31, 2016, transfers to exploration and evaluation expenses included a \$2,382,863 (December 31, 2015 - \$1,366,421) impairment charge related to drilling costs on a well in the Reagan area, having a recoverable amount of \$Nil, as there are no substantive expenditures or further exploration budgeted or planned for the well.

Exploration and evaluation expenses during the year ended December 31, 2016 included land costs of \$41,725 and drilling costs of \$38,059.

Exploration and evaluation expenses during the year ended December 31, 2015 included \$65,765 of preliminary exploration, drilling, and geological costs that were charged directly to exploration and evaluation expense.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

7. Property and equipment

| | Petroleum and natural gas interests | Well and production equipment and facilities | Corporate and other | Total |
|---|---|---|------------------------|----------------|
| Cost | | | | |
| Balance at December 31, 2014 | \$ 7,508,858 | \$ 2,638,272 | \$ 41,965 | \$ 10,189,095 |
| Additions | - | - | - | - |
| Decommissioning provisions | 850 | - | - | 850 |
| Balance at December 31, 2015 | \$ 7,509,708 | \$ 2,638,272 | \$ 41,965 | \$ 10,189,945 |
| Additions | - | - | - | - |
| Decommissioning provisions | (49,878) | - | - | (49,878) |
| Balance at December 31, 2016 | \$ 7,459,830 | \$ 2,638,272 | \$ 41,965 | \$ 10,140,067 |
| Accumulated depletion and depreciation and impairments | | | | |
| Balance at December 31, 2014 | \$ (4,702,356) | \$ (681,773) | \$ (41,965) | \$ (5,426,094) |
| Depletion and depreciation | (417,794) | (139,264) | - | (557,058) |
| Impairment | (49,000) | - | - | (49,000) |
| Balance at December 31, 2015 | \$ (5,169,150) | \$ (821,037) | \$ (41,965) | \$ (6,032,152) |
| Depletion and depreciation | (368,709) | (122,903) | - | (491,612) |
| Balance at December 31, 2016 | \$ (5,537,859) | \$ (943,940) | \$ (41,965) | \$ (6,523,764) |
| Net book value: | | | | |
| At December 31, 2015 | \$ 2,340,558 | \$ 1,817,235 | \$ - | \$ 4,157,793 |
| At December 31, 2016 | \$ 1,921,971 | \$ 1,694,332 | \$ - | \$ 3,616,303 |

The depletion and depreciation calculation for the years ended December 31, 2016 and 2015 included \$Nil in future development costs.

At December 31, 2016 and December 31, 2015, the Corporation tested its CGUs for impairment due to the volatility of commodity prices. The recoverable amount of each of the Corporation's CGUs, classified as a level 3 fair value measurement, was based on the estimated fair value less costs to sell ("FVLCTS"). The FVLCTS was determined by management based on forecasted cash flows, using a discount rate of 10%, incorporating escalated prices and future development costs. The forecasted cash flows and prices used to estimate the fair value less costs of disposal were based on those determined by the Corporation's independent reserve engineers.

At December 31, 2016, the Corporation did not recognize an impairment loss on its CGU's.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

At December 31, 2015, the Corporation recognized an impairment loss of \$49,000 on the Claresholm CGU. The impairment loss in 2015 was mainly the result of decreases in forecasted commodity prices.

Key assumptions in the determination of cash flows from reserves include petroleum and natural gas prices and the discount rate applied to cash flows from proved and probable reserves. For the year ended December 31, 2016, a 2.0% increase in the discount rate over the life of the reserves independently would not have resulted in an impairment loss (December 31, 2015 - increase the impairment losses by approximately \$230,000)

The benchmark and Corporation actual forecast prices on which the December 31, 2016 impairment tests were based are as follows:

December 31, 2016

| | Oil | |
|------|---|--|
| | Benchmark Edmonton Par Cdn\$/bbl | Company Average Cdn\$/bbl |
| 2017 | 69.33 | 51.01 |
| 2018 | 72.26 | 54.42 |
| 2019 | 75.00 | 58.49 |
| 2020 | 76.36 | 60.08 |
| 2021 | 78.82 | 62.79 |
| 2022 | 82.35 | 66.23 |
| 2023 | 85.88 | 69.64 |
| 2024 | 89.41 | 73.06 |
| 2025 | 92.94 | 76.45 |
| 2026 | 95.61 | 79.60 |

The benchmark prices increase at rates of approximately 2% per year after 2026. Adjustments were made to the benchmark prices to reflect varied delivery points and quality differentials to arrive at the Corporation's expected average prices.

8. Decommissioning provisions

The Corporation's decommissioning provisions result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning provision is estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provisions, before considering salvage, is approximately \$1,574,208 at December 31, 2016 (December 31, 2015 - \$1,588,691), which have been discounted using risk-free rates ranging between 0.76% to 2.24% at December 31, 2016 (December 31, 2015 – 0.48% to 2.15%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 26 years into the future and will be funded from general corporate resources at the time of abandonment.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

The following table summarizes changes in the decommissioning provisions for the years ended December 31, 2016 and 2015:

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Decommissioning provisions, beginning of year | \$ 1,327,657 | \$ 1,176,262 |
| Liabilities incurred | - | 128,810 |
| Revisions to estimates | (49,878) | 1,992 |
| Liabilities settled | (27,420) | - |
| Accretion (unwinding of discount) (note 13) | 18,174 | 20,593 |
| Decommissioning provisions, end of year | \$ 1,268,533 | \$ 1,327,657 |

Changes in estimates and assumptions for the years ended December 31, 2016 and 2015 relates to both the change in discount rates used and revisions to abandonment and reclamation cost estimates and future abandonment dates of the Corporation's wells and facilities.

During the years ended December 31, 2016, the Corporation incurred \$27,420 in cash decommissioning costs at its Redwater, Alberta property.

9. Taxes

The total tax provision is calculated by applying the combined Canadian federal and provincial statutory tax rates to the Corporation's pre-tax loss with adjustments as set out in the following table. The statutory Canadian Federal tax rate is 15%. During the year ended December 31, 2015, the Alberta provincial tax rate increased from 10% to 12%.

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Loss before taxes | \$ (3,034,453) | \$ (2,297,033) |
| Statutory tax rate | 27% | 26% |
| Computed tax recovery | (819,302) | (597,229) |
| Increase (decrease) resulting from: | | |
| Stock-based compensation | 11,835 | 43,802 |
| Flow-through share expenditures incurred | - | 275,825 |
| Changes in tax rate and other | 16,411 | (326,358) |
| Change in unrecognized deferred tax asset | 791,056 | 441,710 |
| Deferred tax recovery | \$ - | \$ (162,250) |

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

The components of the Corporation's deferred tax assets (liabilities) are as follows:

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Property and equipment and exploration | \$ 2,933,738 | \$ 338,062 |
| Decommissioning provisions | 1,268,533 | 1,327,657 |
| Unamortized share issuance costs | 26,260 | 57,940 |
| Non-capital losses | 14,439,615 | 14,012,472 |
| Eligible tax asset | 28,925 | 31,102 |
| Total unrecognized deductible temporary differences | \$ 18,697,071 | \$ 15,767,233 |

Non-capital tax losses of approximately \$14.4 million at December 31, 2016 (December 31, 2015 – \$14.4 million) will expire in future years ranging from 2023 - 2035. In addition, the Corporation has approximately \$6.85 million in resource tax pools and undepreciated capital costs and \$58,000 in undeducted share issuance costs at December 31, 2016 deductible against future taxable income for which no benefit has been recognized in the financial statements.

10. Share capital

(a) Authorized

The authorized share capital of the Corporation consists of an unlimited number of voting common shares and an unlimited number of preferred shares.

(b) Issued

| Common shares | Number of shares | Stated Value |
|----------------------------|-----------------------------|---------------------|
| Balance, December 31, 2015 | 121,234,854 | \$ 15,922,585 |
| Balance, December 31, 2016 | 121,234,854 | \$ 15,922,585 |

11. Stock-based compensation

(a) Stock option plan

Under the Corporation's stock option plan, the Corporation may grant options to its directors, officers, employees and consultants up to a maximum of 10% of the issued and outstanding common shares at the time of the grant, with a maximum of 5% of the Corporation's issued and outstanding shares reserved for any one person on a yearly basis. The maximum option term is 10 years from the grant date with vesting terms set at the discretion of the board of directors.

In July 2013, stock options were granted to directors and officers to acquire 900,000 common shares of the Corporation at an exercise price of \$0.10 per share. The options vest as to one-third immediately and one-third on each of the first and second anniversary dates.

In April 2014, stock options were granted to directors and officers to acquire 2,600,000 common shares of the Corporation at an exercise price of \$0.05 per share. The options vest as to one-

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

third immediately and one-third on each of the first and second anniversary dates.

In February 2015, stock options were granted to directors and officers to acquire 5,000,000 common shares of the Corporation at an exercise price of \$0.05 per share. The options vest as to one-third immediately and one-third on each of the first and second anniversary dates.

The following is a summary of changes to the Corporation's stock option plan during the periods:

| | Year ended December 31, 2016 | | Year ended December 31, 2015 | |
|--------------------------------|---------------------------------|--|---------------------------------|--|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding, beginning of year | 8,500,000 | \$0.06 | 3,500,000 | \$0.06 |
| Granted | - | - | 5,000,000 | \$0.05 |
| Outstanding at end of year | 8,500,000 | \$0.06 | 8,500,000 | \$0.06 |
| Exercisable at end of year | 6,833,333 | \$0.06 | 4,300,000 | \$0.06 |

The following table summarizes the expiry terms of the Corporation's outstanding stock options as at December 31, 2016:

| Date of grant | Outstanding Options | Weighted Average Remaining Contractual Life (years) | Number of Stock Options Exercisable |
|-------------------|------------------------|---|---|
| July 3, 2013 | 900,000 | 1.5 | 900,000 |
| April 1, 2014 | 2,600,000 | 2.3 | 2,600,000 |
| February 24, 2015 | 5,000,000 | 3.2 | 3,333,333 |
| | 8,500,000 | 2.6 | 6,833,333 |

(b) Stock-based compensation expense

The Corporation recorded stock-based compensation expense of \$43,832 during the year ended December 31, 2016 (December 31, 2015 - \$168,469) with a corresponding increase to contributed surplus.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

The fair value of stock options granted during the year ended December 31, 2015 were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | December 31, 2015 |
|------------------------------|--------------------------|
| Risk-free interest rate | 0.74% |
| Expected volatility | 185% |
| Expected life | 5 years |
| Expected dividend yield | 0% |
| Estimated forfeiture rate | 0% |
| Fair value per option | \$0.03 |
| Share price on date of grant | \$0.035 |

A forfeiture rate of Nil% was used when recording stock-based compensation as it was expected, at the grant dates, that all officers, directors, employees and consultants would continue with Corporation over the vesting period. Estimates are adjusted each period to the actual forfeiture rate. Future volatility has been calculated based on the history of the Corporation's share trading activity.

12. Petroleum and natural gas revenue

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---------------------------------|---|---|
| Petroleum and natural gas sales | \$ 909,928 | \$ 1,116,593 |
| Less: royalties | (96,575) | (151,841) |
| | \$ 813,353 | \$ 964,752 |

13. Finance income (loss) and expenses

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| Finance income | | |
| Interest income on cash and cash equivalents | \$ 5,985 | \$ 17,971 |
| Revaluation of the contingent liability (note 4(d)) | - | 45,000 |
| Finance expenses | | |
| Part XII.6 tax on flow-through share expenditures | - | (794) |
| Accretion of decommissioning provisions (note 8) | (18,174) | (20,593) |
| Net finance income (loss) | \$ (12,189) | \$ 41,584 |

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

14. Loss per share

The following table summarizes the common shares used in calculating net loss per share:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---------------------------------------|---------------------------------------|
| Weighted Average Common Shares Outstanding | | |
| Basic | 121,234,854 | 121,234,854 |
| Diluted | 121,234,854 | 121,234,854 |

The calculation of diluted loss per share for the years ended December 31, 2016 and 2015 excludes the effect of all outstanding stock options as they are anti-dilutive.

15. Personnel expenses

Key management personnel include executive officers and directors. Executive officers were paid compensation and also participate in the Corporation's stock option program.

The executive officers during 2015 and 2016 included the Chief Executive Officer, Chief Financial Officer and Vice President of Finance, Vice President of Exploration, and Vice President of Land.

Non-executive directors are paid director fees and participate in the Corporation's stock option program.

Key management personnel compensation included in total remuneration is as follows:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---------------------------------------|---------------------------------------|
| Salaries, benefits, consulting fees and director fees | \$ 359,000 | \$ 358,500 |
| Stock-based compensation (note 11(b)) | 43,832 | 168,469 |
| | \$ 402,832 | \$ 526,969 |

16. Commitments

The Corporation had a five year office lease that ended in October of 2015. The annual commitment for the lease, not including variable operating costs, taxes and fees, was \$34,225. The Corporation's current offices are leased on a month-to-month basis.

As at December 31, 2016, the Corporation had an outstanding letter of credit of \$88,800 (December 31, 2015 - \$88,800) relating to an abandonment deposit held by the Saskatchewan Ministry of Energy and Resources, which is included in deposits and prepaid expenses.

Standard Exploration Ltd.
Notes to the Financial Statements
Years Ended December 31, 2016 and 2015
(amounts in Canadian dollars)

17. Other related party transactions

During the year ended December 31, 2016, professional fees of \$28,598 (December 31, 2015 - \$40,922) were incurred to a firm of which an officer and director of the Corporation is a partner and are included in general and administrative expenses. Of this amount, \$5,785 is included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 - \$10,993).

During the year ended December 31, 2016, director fees of \$11,000 (December 31, 2015 - \$10,500) were incurred to non-executive directors of the Corporation (note 16). Of this amount, \$Nil is included in accounts payable and accrued liabilities at December 31, 2016 (December 31, 2015 - \$Nil).

The related party transactions are in the normal course of operations and have been initially measured at fair value, which is the amount of consideration established and agreed to by the related party and is similar to amounts negotiated independently with third parties.

18. Subsequent events

On April 10, 2017, the Corporation announced an asset disposition at Claresholm, Alberta to an arms-length private company for net cash proceeds of \$374,321 through Sayer Energy Advisors. The transaction closed on April 7, 2017 with an effective date of March 1, 2017. Claresholm's net oil production averaged 9 boe/d.