DOXA ENERGY LTD.

Consolidated Financial Statements
December 31, 2016 and 2015
(Expressed in US Dollars, unless otherwise stated)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DOXA ENERGY LTD.

We have audited the accompanying consolidated financial statements of Doxa Energy Ltd., which comprise the consolidated balance sheets as at December 31, 2016 and 2015 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

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April 24, 2017

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DOXA ENERGY LTD.
Consolidated Balance Sheets
As at December 31
(Expressed in US Dollars)

	2016	2015
Assets		
Current		
Cash	$ 64,607	$ 24,539
Accounts receivable (notes 4 and 15)	52,002	57,104
Total current assets	116,609	81,643
Prepaid Authorization for Expenditure (note 10)	-	3,638
Exploration and Evaluation Assets (notes 7 and 13)	1,149,074	1,132,970
Property and Equipment (notes 6, 8 and 13)	859,161	1,107,994
Total Assets	$ 2,124,844	$ 2,326,245
Liabilities		
Current		
Accounts payable and accrued liabilities (note 15)	$ 1,909,533	$ 2,000,601
Credit facility (note 13)	435,883	-
Loans payable (notes 12 and 15)	2,198,853	-
Total current liabilities	4,544,269	2,000,601
Credit Facility (note 13)	-	541,782
Loans Payable (notes 12 and 15)	-	1,938,624
Decommissioning Obligation (note 9)	81,795	76,403
Total Liabilities	4,626,064	4,557,410
Shareholders' Deficiency		
Share Capital (note 11)	8,695,994	8,695,994
Share-based Payments Reserve	36,781	36,781
Accumulated Other Comprehensive Income	736,471	794,206
Deficit	(11,970,466)	(11,758,146)
Total Shareholders' Deficiency	(2,501,220)	(2,231,165)
Total Liabilities and Shareholders' Deficiency	$ 2,124,844	$ 2,326,245

Approved on behalf of the Board:

"John D. Harvison"
.... Director
John D. Harvison

"Dan J. Frederiksen"
.... Director
Dan J. Frederiksen

See notes to consolidated financial statements.

DOXA ENERGY LTD.
Consolidated Statements of Operations and Comprehensive Loss
Years Ended December 31
(Expressed in US Dollars)

	2016	2015
Revenue		
Oil and gas	$ 369,926	$ 487,021
Direct Operating Expenses		
Severance taxes and transport	39,850	43,308
Lease operating expenses	245,369	419,714
Depletion and depreciation (note 6)	38,094	175,650
	323,313	638,672
Operating Income (Loss)	46,613	(151,651)
Expenses		
Interest (notes 12 and 13)	241,329	223,955
Exploration (note 7)	1,705	184,268
Professional fees (note 15)	24,428	31,606
Consulting fees	-	24,334
Filing fees and shareholder services	13,021	11,154
Insurance	6,417	8,572
Advertising and promotion	544	1,158
Office and communications	253	924
Travel	-	92
Accretion (note 9)	5,392	5,039
	293,089	491,102
Impairment of property and equipment (notes 6 and 8)	210,739	200,237
Gain on sale of leases (note 7)	(244,895)	-
	(34,156)	200,237
Net Loss for the Year	(212,320)	(842,990)
Other Comprehensive Loss		
Item that may not be reclassified subsequently to profit or loss		
Foreign exchange gain (loss) on translating foreign operations	(57,735)	348,483
Total Comprehensive Loss for Year	$ (270,055)	$ (494,507)
Loss per Share, Basic and Diluted	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding	33,980,141	33,980,141

See notes to consolidated financial statements.

DOXA ENERGY LTD.
Consolidated Statements of Cash Flows
Years Ended December 31
(Expressed in US Dollars)

	2016	2015
Operating Activities		
Net loss for the year	$ (212,320)	$ (842,990)
Items not involving cash		
Depletion and depreciation	38,094	175,650
Accretion	5,392	5,039
Accrued interest on long-term debt	203,138	176,239
Impairment of property and equipment	210,739	200,237
Gain on sale of leases	(244,895)	-
	148	(285,825)
Changes in non-cash working capital		
Accounts receivable	5,102	55,050
Accounts payable and accrued liabilities	(5,714)	(75,901)
	(612)	(20,851)
Cash Used in Operating Activities	(464)	(306,676)
Investing Activities		
Funds on prepaid authorization for expenditures	-	26,130
Proceeds from sale of leases	284,508	-
Expenditures on exploration and evaluation assets	(137,433)	-
Expenditures on property and equipment	-	(17,936)
Cash Provided by Investing Activities	147,075	8,194
Financing Activity		
Withdrawal (repayment of) from credit facility	(105,899)	225,000
Cash Provided by (Used in) Financing Activity	(105,899)	225,000
Foreign Exchange Effect on Cash	(644)	8,201
Inflow (Outflow) of Cash	40,068	(65,281)
Cash, Beginning of Year	24,539	89,820
Cash, End of Year	$ 64,607	$ 24,539
Supplemental Cash Flow Information		
Interest paid	$ 38,191	$ 47,716
Accounts payable and accrued liabilities included in exploration and evaluation assets	$ 1,677,841	$ 1,763,195

See notes to consolidated financial statements.

DOXA ENERGY LTD.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in US Dollars)

	Number of Shares	Share Capital	Share-based Payments Reserve	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Deficiency
Balance, December 31, 2014	33,980,141	$ 8,695,994	$ 563,867	$ 445,723	$ (11,442,242)	$ (1,736,658)
Options expired during the year	-	-	(527,086)	-	527,086	-
Exchange difference on translating foreign operations	-	-	-	348,483	-	348,483
Net loss for the year	-	-	-	-	(842,990)	(842,990)
Balance, December 31, 2015	33,980,141	8,695,994	36,781	794,206	(11,758,146)	(2,231,165)
Exchange difference on translating foreign operations	-	-	-	(57,735)	-	(57,735)
Net loss for the year	-	-	-	-	(212,320)	(212,320)
Balance, December 31, 2016	33,980,141	$ 8,695,994	$ 36,781	$ 736,471	$ (11,970,466)	$ (2,501,220)

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Doxa Energy Ltd. (the “Company” or “Doxa”) was incorporated under the *Business Corporations Act* (British Columbia) on February 13, 2007. The principal business of the Company is the acquisition, exploration and development of oil and gas properties, primarily in south Texas, USA. The Company maintains its registered and records office at 2080 – 777 Hornby Street, Vancouver, British Columbia, Canada, V6Z 1S4.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2016, the Company has a deficit of $11,970,466 (2015 - $11,758,146) and negative working capital of $4,427,660 (2015 - $1,918,958). The Company’s ability to continue as a going concern is dependent upon its ability to secure additional financing on a timely basis, and achieve sufficient positive cash flows from operating activities to cover obligations and expenses. Management may actively seek additional financing opportunities through the issuance of equity or debentures as the need for capital arises. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company’s ability to continue as a going concern. If the Company is unable to obtain additional financing, management may be required to continue to curtail certain discretionary expenses.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out in note 3 have been applied consistently by the Company and its subsidiary to all periods presented.

(c) Approval of the consolidated financial statements

The consolidated financial statements of Doxa for the year ended December 31, 2016 were reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors on April 24, 2017.

2. BASIS OF PREPARATION (Continued)

(d) Use of judgments and estimates

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

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Judgments

Identification of cash-generating units ("CGUs")

The Company's assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Classification of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances and as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability have been achieved.

Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

The determination of the Company and its subsidiary's functional currency

The functional currency of the Company and its subsidiary is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions which determined the primary economic environment.

2. BASIS OF PREPARATION (Continued)

(d) Use of judgments and estimates (continued)

<u>Estimates</u>

Reserves

The estimate of oil and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statements of operations and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets have been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows. The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure of Oil and Gas Activities* ("NI 51-101"). Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Recoverability of asset carrying values

At each reporting date, the Company assesses its oil and natural gas properties and exploration and evaluation assets for possible impairment to determine if there is any indication that the carrying amounts of the assets may not be recoverable. An assessment is also made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. Determination as to whether and how much an asset is impaired or no longer impaired, involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles, operating costs, future capital costs and reserves. Changes in circumstances may impact these estimates, which may impact the recoverable amount of assets. Any change in the impairment loss or reversal of impairment loss could have a material financial impact in future periods, but future depletion expense would be impacted as a result.

Depreciation and depletion

Depletion of oil and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated proved reserves as determined annually by independent engineers and internal reserve evaluations on a quarterly basis. Natural gas reserves and production are converted at the energy equivalent of approximately six thousand cubic feet to one barrel of oil.

Recoverability of accounts receivable

Trade and other receivables are recorded at the estimated recoverable amount, which involves the estimate of uncollectible accounts.

2. BASIS OF PREPARATION (Continued)

(d) Use of judgments and estimates (continued)

Estimates (continued)

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations are subject to change over time and may have a material impact on profit or loss or financial position. For more information on the Company's decommissioning obligation see note 9.

Discount rate of loans

The loans payable are initially recognized at fair value, calculated as the net present value of the liability based upon discount rates used by comparable issuers and accounted for at amortized cost using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Doxa Energy US, Inc. A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investee. All material intercompany transactions and balances have been eliminated upon consolidation.

(b) Property and equipment and exploration and evaluation assets

(i) Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed by the Company as incurred.

(ii) Exploration and evaluation expenditures

Costs incurred once the legal right to explore has been acquired are capitalized as exploration and evaluation assets. These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to an identifiable well and directly attributable general and administrative costs. These costs are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment and exploration and evaluation assets (continued)

(ii) Exploration and evaluation expenditures (continued)

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped together with developing and producing assets and are tested at an aggregated CGU level. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. Doxa's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

The assessment of technical feasibility and commercial viability is based upon estimates of the recoverability of capitalized costs by future exploitation or sale and where the activities have reached a stage that permits a reasonable assessment of the existence of proved reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available.

When technical feasibility and commercial viability of a well is determinable based on management's assessment of current information, the exploration and evaluation assets attributable to that well are first tested for impairment and then reclassified from exploration and evaluation assets to property and equipment.

(iii) Other intangible costs

Costs of data purchased to formulate strategy for license applications, such as seismic data and asset purchases, are accumulated and capitalized as other intangible assets to the extent that they are incurred prior to obtaining related licenses and do not relate to a field with proven reserves attributed.

(iv) Development and production costs

Items of property and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

When significant parts of an item of property and equipment, including oil and gas interests, have different useful lives, they are accounted for as separate items (major components).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment and exploration and evaluation assets (continued)

(iv) Development and production costs (continued)

Gains and losses on disposal of an item of property and equipment, including oil and gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within the consolidated statements of operations and comprehensive loss.

(v) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. 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 profit or loss as incurred.

(vi) Depletion and depreciation

Depletion of oil and gas interests is provided using the unit-of-production method based on production volumes in relation to total estimated proved reserves as determined annually by independent engineers and determined in accordance with NI 51-101.

Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Costs are only depleted once production in a given area begins.

Calculations for depletion and depreciation of processing and other equipment are based on total capitalized costs of proved reserves less the estimated net realizable value of production equipment and facilities after the proved reserves are fully produced.

Proved reserves are estimated by independent reserve engineers and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment and exploration and evaluation assets (continued)

(vi) Depletion and depreciation (continued)

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- A reasonable assessment of the future economics of such production;
- A reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- Evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved if supported by either actual production or conclusive formation tests.

The area of reservoir considered proved includes:

(a) that portion delineated by drilling and defined by as-oil and/or oil-water contacts, if any, or both; and

(b) immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proved classification when successful testing by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Depreciation for other equipment is recognized in profit or loss on a declining-balance basis with the following annual rates:

Office equipment	20%
Computer equipment	45%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Impairment of non-financial assets

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets, as developed oil and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The carrying amount of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment test is completed if any such indication exists.

Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to developing and producing assets (oil and natural gas properties).

An impairment loss would be recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognized in profit or loss.

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 if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(d) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer, which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability if the risks have not been incorporated into the estimate of cash flows. The increase in the provision due to the passage of time is recognized within accretion expense.

(i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Changes in the present value of the estimated expenditure are reflected as an adjustment to the provision and the relevant asset. The unwinding of the discount on the decommissioning obligation is recognized as accretion expense. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was recognized.

(ii) Environmental liabilities

The Company records liabilities on a discounted basis for environmental remediation efforts that are likely to occur and where the cost can be reasonably estimated. The estimates, including associated legal costs, are based on available information using existing technology and enacted laws and regulations. The estimates are subject to revision in future periods based on actual costs incurred or new circumstances. Any amounts expected to be recovered from other parties, including insurers, are recorded as an asset separate from the associated liability.

(f) Joint interests

A substantial portion of the Company's exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry-forwards, resource related pools and other deductions. A deferred tax asset for unused tax losses, tax credits and deductible temporary differences is recognized to the extent that it is possible that future taxable profits will be available against which they can be utilized.

Where deferred tax assets are recognized, they are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Share-based payments

The Company has a stock option plan that is described in note 11(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payments reserve. For those unexercised options that expire, the recorded value is transferred to deficit.

(i) Currency translation

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators specified in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and should be measured using the currency of the primary economic environment in which the entity operates (the “functional currency"). The Company’s functional currency is the Canadian dollar (“CDN”), and the US subsidiary's functional currency is the US dollar (“USD”). The consolidated financial statements are presented in US dollars.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Currency translation (continued)

Under IFRS, the results and financial position of all the Company's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the consolidated balance sheet date;
- revenues and expenses are translated at the average exchange rate for the period (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenues and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity (deficiency).

Transactions in currencies other than the entity's functional currency are recorded at the average rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities are translated using the period-end foreign exchange rate.

Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

(j) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted earnings (loss) per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

(k) Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: FVTPL and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at FVTPL

An instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred.

Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash is included in this category of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable.

(ii) Financial liabilities

The Company classifies its financial liabilities in the following category:

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statement of operations and comprehensive loss over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Borrowings and other financial liabilities include accounts payable and accrued liabilities, credit facility and loans payable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (continued)

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3 – Inputs for the asset or liability that are not based on observable market data.

(iv) Impairment

The Company assesses at each consolidated statement balance sheet date whether there is objective evidence that financial assets, other than those designated as FVTPL, are impaired. When impairment has occurred, the cumulative loss is recognized in the consolidated statement of operations 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 the estimated future cash flows, discounted at the financial asset's original effective interest rate.

(m) New standards not yet adopted

The impact of the following standards on the Company's consolidated financial statements has not yet been determined.

(i) IFRS 9 *Financial Instruments* (2014)

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) New standards not yet adopted (continued)

(i) IFRS 9 *Financial Instruments* (2014) (continued)

- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to the Company's annual period beginning January 1, 2018.

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Applicable to the Company's annual period beginning January 1, 2018.

(iii) IFRS 16 *Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

Applicable to the Company's annual period beginning January 1, 2019.

The Company has not early-adopted these standards and is currently assessing the impact that the standards will have on the consolidated financial statements.

(Expressed in US Dollars, unless otherwise stated)

4. FINANCIAL INSTRUMENTS

The Company has classified its cash as FVTPL; accounts receivable, as loans and receivables; and accounts payable and accrued liabilities, credit facility and loans payable, as borrowings and other financial liabilities.

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

The Company's credit facility and loans payable are considered to be Level 2 of the fair value hierarchy.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company manages credit risk, in respect to cash, by holding its cash at major Canadian and US financial institutions. Concentration of credit risk exists with respect to the Company's cash, as amounts are held with a major Canadian financial institution and a major US financial institution.

The Company is exposed to credit risk with respect to its accounts receivable. To reduce credit risk of trade receivables, the Company regularly reviews the collectability of the trade receivables to ensure there is no indication that these amounts will not be fully recoverable. As at December 31, 2016, allowance for doubtful accounts is $nil (2015 - $nil).

The Company's concentration of credit risk and maximum exposure thereto is as follows:

		2016		2015
Cash – Canada	$	28,460	$	21,693
Cash – USA	$	36,147	$	2,846
Accounts receivable	$	50,811	$	57,006

All of the accounts receivable were aged less than 60 days as at December 31, 2016 and 2015.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipated investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

4. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (continued)

As at December 31, 2016, the Company had a cash balance of $64,607 (2015 - $24,539) and accounts receivable of $52,002 (2015 - $57,104) available, and the ability to use the Company's credit facility to settle current liabilities of $4,108,386 (2015 - $2,000,601).

The Company's accounts payable and accrued liabilities have contractual maturities of 30 to 90 days. The Company's credit facility matures September 12, 2017 and on February 3, 2017, the due date for the loans payable was amended to July 31, 2018. The Company will be required to raise additional capital in order to fund operations for the next twelve months.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk consists of interest rate risk, foreign currency risk and other price risk. The market risks the Company is exposed to are as follows:

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is exposed to interest rate price risk on its loans payable and credit facility with fixed interest rates, as the prevailing market interest rate may differ from the interest rate of the debt. However, fluctuations in market rates would have to be significant to have a material effect on the Company's operations; therefore, the Company's exposure to interest rate cash flow risk on the debt is minimal.

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of the Company's financial assets and liabilities will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in its functional currency. The Company does not manage currency risk through hedging or other currency management tools.

(Expressed in US Dollars, unless otherwise stated)

4. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

As at December 31, 2016 and 2015, the Company's net exposure to foreign currency risk on its financial instruments is as follows:

	2016		**2015**	
	CDN$	US$	CDN$	US$
Cash	4,014	2,990	11,882	8,584

Based on the above, assuming all other variables remain constant, a 10% (2015 - 10%) weakening or strengthening of the Canadian dollar against the US dollar would result in an increase/decrease of approximately $299 (2015 - $858) in net loss.

5. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders' deficiency and debt. The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern. The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of any underlying assets. The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire interests in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2016. The Company is not subject to externally imposed capital requirements.

(Expressed in US Dollars, unless otherwise stated)

6. PROPERTY AND EQUIPMENT

	Oil and Gas Interests	Processing and Other Equipment	Total
Cost			
Balance at December 31, 2014	$ 2,985,508	$ 1,738,908	$ 4,724,416
Additions	7,393	10,543	17,936
Impairment (note 8)	(163,580)	(36,657)	(200,237)
Balance at December 31, 2015	2,829,321	1,712,794	4,542,115
Additions	-	-	-
Impairment (note 8)	-	(210,739)	(210,739)
Balance at December 31, 2016	$ 2,829,321	$ 1,502,055	$ 4,331,376
Depletion and Depreciation			
Balance at December 31, 2014	$ (2,687,360)	$ (571,111)	$ (3,258,471)
Depletion and depreciation	(141,961)	(33,689)	(175,650)
Balance at December 31, 2015	(2,829,321)	(604,800)	(3,434,121)
Depletion and depreciation	-	(38,094)	(38,094)
Balance at December 31, 2016	$ (2,829,321)	$ (642,894)	$ (3,472,215)
Carrying Amounts			
At December 31, 2015	$ -	$ 1,107,994	$ 1,107,994
At December 31, 2016	$ -	$ 859,161	$ 859,161

For the year ended December 31, 2015, the Company estimated that its office equipment recorded in processing and other equipment had a recoverable value of $nil, resulting in a write-down of $1,017.

7. EXPLORATION AND EVALUATION ASSETS

Cost	
Balance at December 31, 2014 and 2015	$ 1,132,970
Additions	55,717
Disposals	(39,613)
Balance at December 31, 2016	$ 1,149,074

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the year. As at December 31, 2016, an amount of $1,149,074 (2015 - $1,132,970) remains in exploration and evaluation assets in respect of projects.

During the year ended December 31, 2016, the Company recognized $1,705 (2015 - $184,268) in plug and abandonment costs relating to non-commercially viable properties that were written off in prior years. During the year ended December 31, 2016, the Company disposed of leases with a carrying value of $39,613 for gross proceeds of $284,508.

(Expressed in US Dollars, unless otherwise stated)

8. IMPAIRMENT

As at December 31, 2016, the Company determined there were indicators of impairment given a reduction of the estimated reserve volumes and future plans. The Company performed impairment tests on its Koehn, Martin State, Kynette and Mississippian CGUs and determined the carrying amounts of the Martin State and Mississippian CGUs were greater than their recoverable amounts. An impairment loss of $210,739 was recognized.

As at December 31, 2015, the Company determined there were indicators of impairment given the decreasing gas and petroleum prices and a reduction of the estimated reserve volumes. The Company performed impairment tests on its Koehn, Martin State, Kynette, Mississippian, Peeler and Jackson County CGUs and determined the carrying amounts of the Martin State, Peeler, Mississippian and Jackson County CGUs were greater than their recoverable amounts. An impairment loss of $199,220 was recognized.

The recoverable amounts were estimated with the fair value less costs to sell using an income approach based on a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors and discount rates specific to the underlying composition of assets residing the CGU. The post-tax discount rate used was 17.00% (2015 - 11.80%).

The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at December 31, 2016 and 2015:

2016:	2017	2018	2019	2020	2021	Thereafter
WTI (US$/bbl)	53.09	56.59	56.10	56.05	56.21	constant
Henry Hub (US$/MMbtu)	3.64	3.14	2.87	2.88	2.90	constant

2015:	2016	2017	2018	2019	2020	Thereafter
WTI (US$/bbl)	31.26	46.06	49.36	51.96	53.64	constant
Henry Hub (US$/MMbtu)	2.49	2.79	2.91	3.03	3.18	constant

9. DECOMMISSIONING OBLIGATION

The Company's property closure and abandonment provision relates to the restoration and closure of its oil and gas property interests. This decommissioning obligation has been recorded as a liability at fair value, assuming a risk-free discount rate of 2.50%(2015 - 2.50%) and an inflation factor of 2.00% (2015 - 2.00%). The amount of the liability is subject to remeasurement during each reporting period. The obligation will be funded from operating cash flows and cash on hand. The following table summarizes the movements in the decommissioning obligation during the years ended December 31, 2016 and 2015:

	2016	**2015**
Balance, beginning of year	$ 76,403	$ 71,364
Accretion	5,392	5,039
Balance, end of year	$ 81,795	$ 76,403

(Expressed in US Dollars, unless otherwise stated)

10. PREPAID AUTHORIZATION FOR EXPENDITURE (“AFEs")

The Company has made payments on AFEs to the operators of its oil and gas interests for unbilled ongoing exploration in the amount of $nil (2015 - $3,638). As the expenditures are incurred, the amounts will be reclassified to exploration and evaluation assets.

11. SHARE CAPITAL

(a) Authorized

The Company has authorized an unlimited number of common shares without par value. All outstanding common shares are fully paid.

(b) Share issuances

The Company did not issue any common shares during the years ended December 31, 2016 and 2015.

(c) Share purchase options

The Company has a stock option plan (the “Plan”) in place that allows for the reservation of common shares issuable under the Plan to a maximum of 10% of the number of issued and outstanding common shares of the Company at any given time. The exercise price of each option is required to be set at the closing price of the Company’s common shares on the trading day prior to the date of grant.

A summary of outstanding share purchase options as at December 31, 2016 and 2015 and changes during the respective years are as follows:

	Number of Options	Weighted Average Exercise Price (CDN$)
Balance, December 31, 2014	1,891,000	0.42
Expired	(1,291,000)	0.55
Balance, December 31, 2015 and 2016	600,000	0.15

As at December 31, 2016 and 2015, the following stock options were outstanding and exercisable:

	Number of Options		Exercise Price
Expiry Date	**2016**	**2015**	(CDN$)
September 24, 2017	600,000	600,000	0.15

At December 31, 2016, the weighted average remaining contractual life on outstanding options was 0.73 (2015 - 1.73) years.

(d) Warrants

At December 31, 2016 and 2015, the Company has no warrants issued and outstanding.

(Expressed in US Dollars, unless otherwise stated)

12. LOANS PAYABLE

On August 10, 2010, the Company entered into loan agreements with each of Armada Investments Ltd. (“Armada”), a company controlled by the chairman of the Company, and Harvco LLC (“Harvco”), a company controlled by the president and director of the Company, whereby Armada provided a loan of CDN$1,200,000 and Harvco provided a loan of CDN$500,000 (the “loans”). The loans were originally due August 15, 2012 and the interest rate on the loan balance is 10% per annum.

As at December 31, 2016, the loans were recorded at CDN$1,610,330 (principal of CDN$1,463,572 and accrued fiscal 2016 interest of CDN$146,758) and CDN$670,971 (principal of CDN$609,822 and accrued fiscal 2016 interest of CDN$61,149), respectively (note 15).

As at December 31, 2015, the loans were recorded at CDN$1,463,572 (principal of $1,330,520 and accrued fiscal 2015 interest of $133,052) and CDN$609,822 (principal of CDN$554,384 and accrued fiscal 2015 interest of CDN$55,438), respectively (note 15).

On July 27, 2011, the Company entered into a second loan agreement with Armada whereby Armada has provided an aggregate loan facility of up to CDN$500,000 to the Company. The loan was originally due July 27, 2013 and the interest rate on the loan balance is 10% per annum. Accrued interest of CDN$61,149 (2015 - CDN$55,438) was added to the principal balance of the Armada loan. As at December 31, 2016, the loan balance was CDN$670,971 (principal CDN$609,822 and accrued fiscal 2016 interest of CDN$61,149). As at December 31, 2015, the loan balance was CDN$609,822 and accrued fiscal 2015 interest of CDN$55,438).

During the year ended December 31, 2011, the due date of the loans payable was amended to August 15, 2013. On November 28, 2013 and November 19, 2014, the due date was further amended to July 31, 2015 and July 31, 2016, respectively.

On February 3, 2017, the due date for all of the loans payable to Armada and Harvco were amended to July 31, 2018.

Balance, December 31, 2014	$ 2,102,666
Accrued interest	176,239
Foreign exchange	(340,281)
Balance, December 31, 2015	1,938,624
Accrued interest	203,183
Foreign exchange	57,046
Balance, December 31, 2016	$ 2,198,853

13. CREDIT FACILITY

On September 12, 2012, the Company entered into a revolving credit facility with UMB Financial Corporation (“UMB”) (formerly, Meridian Bank Texas, successor by merger). During the year ended December 31, 2014, the borrowing capacity of the loan was adjusted to $750,000 from $5,000,000 and the entire amount outstanding under the UMB revolving credit facility was to mature September 12, 2016. During the year ended December 31, 2015, the borrowing capacity of the loan was adjusted from $5,000,000 to $550,000 and the maturity date was extended to September 12, 2017. The UMB revolving credit facility bears interest at a rate equal to prime plus 1%, with an interest rate floor of 6%. Interest accrued is payable monthly. The borrowing is

13. CREDIT FACILITY (Continued)

guaranteed by one officer and one director of the Company, and is secured by the oil and gas assets of the Company.

As at December 31, 2016, the Company had drawn upon $435,883 (2015 - $541,782) of the credit facility.

14. SEGMENTED INFORMATION

The Company has one operating segment, which is the acquisition and exploration of oil and gas properties.

All of the Company's long-term assets are located in the US. The majority of the Company's operating expenses are incurred in the US, with a smaller portion in Canada. Exploration and development activities are located in the US and oil and gas revenues are generated in the US.

15. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, the Company was charged legal fees of CDN$6,380 (2015 - CDN$4,042) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

At December 31, 2016, the Company has CDN$2,073,394 (2015 - CDN$1,884,904) in loans payable and accrued interest of CDN$207,907 (2015 – CDN $188,490) owing to Armada, a Company controlled by the chairman of the Company (note 12).

At December 31, 2016, the Company has CDN$609,822 (2015 - CDN$554,384) in loans payable and accrued interest of CDN$61,149 (2015 - CDN$55,438) owing to Harvco, a Company controlled by the president and director of the Company (note 12).

At December 31, 2016, the Company has $1,677,841 (2015 - $1,763,195) in accounts payable owing to Dynamic Production, Inc., a Company controlled by the president and director of the Company, for lease operating expenses relating to the Company's developed and producing oil and gas properties.

At December 31, 2016, the Company has $10,441 (2015 - $8,145) in accounts receivable from Dynamic Production, Inc. for oil and gas revenue relating to the Company's developed and producing oil and gas properties.

There was no key management compensation during the years ended December 31, 2016 and 2015.

(Expressed in US Dollars, unless otherwise stated)

16. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2015 - 26.00%) to income before income taxes. The reasons for the differences are as follows:

	2016	2015
Net loss	$ (212,320)	$ (842,990)
Statutory income tax rate	26.00%	26.00%
Income tax recovery	(55,203)	(219,177)
Items not deductible for tax purposes	(85,713)	-
Change in timing differences	-	(28,709)
Over provided in prior years	(21,392)	-
Impact of effective tax rate of other countries	2,908	(19,736)
Unrecognized tax benefits	159,400	267,622
Total income taxes	$ -	$ -

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2016 and 2015 are presented below:

	2016	2015
Deferred income tax assets		
Non-capital losses	$ 51,763	$ 150,733
Total deferred income tax assets	51,763	150,733
Deferred income tax liabilities		
Property and equipment	(51,763)	(150,733)
Total deferred income tax liability	(51,763)	(150,733)
Net deferred income tax liabilities	$ -	$ -

The Company recognizes tax benefits on losses or other deductible amounts generated in countries should the Company have sufficient future taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2016	2015
Non-capital losses	$ 5,769,000	$ 3,778,000
Other	81,000	76,000
Unrecognized deductible temporary differences	$ 5,850,000	$ 3,854,000

As at December 31, 2016, the Company has US non-capital losses of $5,331,000 that may be applied to reduce future US taxable income.

(Expressed in US Dollars, unless otherwise stated)

16. INCOME TAXES (Continued)

As at December 31, 2016, the Company has Canadian non-capital losses of CDN$4,360,000 that may be applied to reduce future Canadian taxable income purposes, expiring as follows:

Available to	Amount
2029	$ 88,000
2030	509,000
2031	704,000
2032	1,632,000
2033	419,000
2034	372,000
2035	312,000
2036	324,000
	$ 4,360,000