

DOXA ENERGY LTD.

**Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)**

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DOXA ENERGY LTD.

Opinion

We have audited the consolidated financial statements of Doxa Energy Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has a deficit of \$12,110,644 as at December 31, 2018 and, as of that date, the Company had a working capital deficiency of \$1,269. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Sukhjit Gill.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 26, 2019

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

	2018	2017
Assets		
Current		
Cash	\$ 10,061	\$ 61,052
Accounts receivable (note 5)	184	56,171
Assets held for sale (note 2)	2,133,658	-
	2,143,903	117,223
Exploration and Evaluation Assets (notes 2 and 8)	-	1,218,456
Property and Equipment (notes 2,7 and 9)	-	879,386
Total Assets	\$ 2,143,903	\$ 2,215,065
Liabilities		
Current		
Accounts payable and accrued liabilities (note 15)	\$ 11,514	\$ 1,898,412
Loans payable (notes 12 and 15)	-	2,588,583
Liabilities held for sale (note 2)	2,133,658	-
	2,145,172	4,486,995
Credit Facility (note 2 and 13)	-	173,133
Decommissioning Obligation (notes 2 and 10)	-	89,828
Loans Payable (notes 12 and 15)	2,618,460	-
Total Liabilities	4,763,632	4,749,956
Shareholders' Deficiency		
Share Capital (note 11)	8,695,994	8,695,994
Accumulated Other Comprehensive Income	794,921	594,841
Deficit	(12,110,644)	(11,825,726)
Total Shareholders' Deficiency	(2,619,729)	(2,534,891)
Total Liabilities and Shareholders' Deficiency	\$ 2,143,903	\$ 2,215,065

Approved on behalf of the Board:

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

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

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

	2018	2017
Expenses		
Interest (notes 12)	\$ 251,132	\$ 227,785
Professional fees (note 15)	37,955	21,601
Filing fees and shareholder services	10,275	10,291
Insurance	6,563	6,552
Advertising and promotion	699	568
Office and communications	14	-
Loss from Continuing Operations	(306,638)	(266,797)
Income from Discontinued Operations (note 2)	21,720	374,756
Net Income (Loss) for the Year	(284,918)	107,959
Other Comprehensive Gain (Loss)		
Foreign exchange gain (loss) on translating continuing operations	200,080	(141,630)
Other Comprehensive Gain (Loss) on Continuing Operations	\$ 200,080	\$ (141,630)
Total Comprehensive Loss for the Year	\$ (84,838)	\$ (33,671)
Loss per Share, Basic and Diluted - Continuing	\$ 0.00	\$ 0.00
Earnings per Share, Basic and Diluted – Discontinued (note 2)	\$ 0.00	\$ 0.01
Weighted average number of common shares outstanding	33,980,141	33,980,141

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

	2018	2017
Operating Activities		
Net loss for the year from continuing operations	\$ (306,638)	\$ (266,797)
Item not involving cash		
Accrued interest on long-term debt	250,740	227,561
Changes in non-cash working capital		
Accounts receivable	(85)	1,092
Accounts payable and accrued liabilities	11,514	-
Operating cash flows used in continuing operations	(44,469)	(38,144)
Operating cash flows provided by discontinued operations	136,848	57
Net Cash Provided by (Used in) Operating Activities	92,379	(38,087)
Investing Activity		
Net cash provided by (used in) investing activities from discontinued operations	(86,169)	276,743
Cash Provided by (Used in) Investing Activity	(86,169)	276,743
Financing Activity		
Net cash used in financing activities from discontinued operations	(20,033)	(262,750)
Cash Used in Financing Activity	(20,033)	(262,750)
Effect of Change in Foreign Currency	(20,783)	20,539
Outflow of Cash	(34,606)	(3,555)
Cash Included in Assets Held for Sale	(16,385)	-
Cash, Beginning of Year	61,052	64,607
Cash, End of Year	\$ 10,061	\$ 61,052

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, 2016	33,980,141	\$ 8,695,994	\$ 36,781	\$ 736,471	\$ (11,970,466)	\$ (2,501,220)
Fair value of options expired	-	-	(36,781)	-	36,781	-
Exchange difference on translating foreign operations	-	-	-	(141,630)	-	(141,630)
Net income for the year	-	-	-	-	107,959	107,959
	33,980,141	8,695,994	-	594,841	(11,825,726)	(2,534,891)
Balance, December 31, 2017						
Exchange difference on translating foreign operations	-	-	-	200,080	-	200,080
Net loss for the year	-	-	-	-	(284,918)	(284,918)
Balance, December 31, 2018	33,980,141	\$ 8,695,994	\$ -	\$ 794,921	\$ (12,110,644)	\$ (2,619,729)

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)

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. During the year ended December 31, 2018, the Company signed a binding letter of intent with Prostar Geocorp. Inc. (“Prostar”) to acquire all of the issued and outstanding securities of Prostar (note 2). 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, 2018, the Company has a deficit of \$12,110,644 (2017 - \$11,825,726) and negative working capital of \$1,269 (2017 - \$4,369,772). 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. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During the year ended December 31, 2018, the Company signed a binding letter of intent (“LOI”) with ProStar Geocorp, Inc. (“ProStar”) to acquire all of the issued and outstanding securities of ProStar (the “Transaction”). Prior to the closing of the Transaction, the Company is to dispose of its wholly owned subsidiary Doxa Energy US, Inc. (“Doxa USA”).

Management determined the operations for Doxa USA meet the definitions of assets held for sale and discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Consequently, assets and liabilities of Doxa USA were classified as a disposal group. Revenue and expenses relating to the discontinuation of Doxa USA have been classified separately from the Company’s continuing operations to net income from discontinued operations as a single line in the consolidated statements of operations and comprehensive loss.

In accordance with IFRS 5, on the reclassification of disposal groups as assets held for sale and discontinued operations, the Company remeasured the net assets of Doxa USA to fair value less costs of disposal. During the year ended December 31, 2018, an impairment expense of \$2,275 was recorded against property and equipment (note 9) and an impairment expense of \$77,206 was recorded against exploration and evaluation assets (note 8), which is included in net income from discontinued operations.

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)

2. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

As at December 31, 2018, assets and liabilities held for sale comprised of the following:

	2018
Assets held for sale	
Cash	\$ 16,385
Accounts receivable (note 15)	40,457
Prepays	5,664
Exploration and evaluation assets (notes 8)	1,163,871
Property and equipment (notes 7 and 9)	907,281
Total assets held for sale	\$ 2,133,658
Liabilities held for sale	
Accounts payable and accrued liabilities (note 15)	\$ 1,900,804
Credit facility (note 13)	153,100
Decommissioning obligation (note 10)	79,754
Total liabilities held for sale	\$ 2,133,658

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)

2. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

The results of Doxa USA are presented as discontinued operations for the years ended December 31, 2018 and 2017:

	2018	2017
Revenue		
Oil and gas (note 15)	\$ 384,665	\$ 417,610
Direct Operating Expenses		
Severance taxes and transport	39,009	40,498
Lease operating expenses	216,879	172,871
Depletion and depreciation	18,150	29,214
	274,038	242,583
Operating Income	110,627	175,027
Expenses		
Interest	8,920	5,827
Exploration	628	-
Professional fees	1,908	-
Consulting	-	8,805
Filing fees	770	120
Accretion (note 10)	(2,800)	6,156
	9,426	20,908
	101,201	154,119
Impairment of property and equipment (note 9)	(2,275)	(17,604)
Impairment of exploration and evaluation assets (note 8)	(77,206)	-
Gain on sale of lease (note 8)	-	238,241
Income from Discontinued Operations	\$ 21,720	\$ 374,756

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Notes to Consolidated Financial Statements
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(Expressed in US Dollars, unless otherwise stated)

2. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

Cash flows from discontinued operations are as follows:

	2018	2017
Operating Activities		
Net income for the year	\$ 21,720	\$ 374,756
Items not involving cash		
Depletion and depreciation	18,150	29,214
Accretion	(2,800)	6,156
Gain on sale of leases	-	(238,241)
Impairment on property and equipment	2,275	17,604
Impairment on exploration and evaluation assets	77,206	-
Changes in non-cash working capital		
Accounts receivable	15,615	(5,261)
Prepaid expenses	(5,664)	-
Accounts payable	10,346	(184,171)
Cash Provided by Operating Activities	136,848	57
Investing Activities		
Proceeds from sale of leases	-	276,743
Expenditures on exploration and evaluation assets	(30,575)	-
Expenditures on property and equipment	(55,594)	-
Cash Provided By (Used in) Investing Activities	(86,169)	276,743
Financing Activity		
Repayment of credit facility	(20,033)	(262,750)
Cash Used in Financing Activity	(20,033)	(262,750)
Inflow of Cash used in Discontinued Operations	\$ 30,646	\$ 14,050
Supplemental Cash Flow Information		
Interest paid	\$ 9,312	\$ 6,051
Accounts payable and accrued liabilities included in exploration and evaluation assets	\$ 1,729,936	\$ 1,737,890
Accounts payable and accrued liabilities included in property and equipment assets	\$ 65,166	\$ 65,166
Reduction in exploration and evaluation assets for settlement of accounts payable	\$ -	\$ 47,835
Decommissioning liabilities – additions to property and equipment (note 9)	\$ (7,274)	\$ 1,877

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
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(Expressed in US Dollars, unless otherwise stated)

3. 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 (“IASB”).

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. IFRS 9 and 15 were adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of each standard.

As a result of the application of IFRS 9, the Company changed its accounting policies for financial assets and impairment thereon as described in note 4.

As a result of the application of IFRS 15, the Company changed its accounting policies for the recognition of revenue as described in note 4.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, assets held for sale and liabilities held for sale, 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 4 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, 2018 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 26, 2019.

(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.

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)

3. BASIS OF PREPARATION (Continued)

(d) Use of judgments and estimates (continued)

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.

Modification versus extinguishment of financial liability

Judgement is required in applying IFRS 9 *Financial Instruments* determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

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.

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)

3. BASIS OF PREPARATION (Continued)

- (d) Use of judgments and estimates (continued)

Assets held for sale and discontinued operations

Judgment is required in determining whether an asset meets the criteria for classification as “assets held for sale” in the consolidated balance sheets. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Judgment is applied in determining whether disposal groups represent a component of the entity, the results of which should be recorded as discontinued operations in the consolidated statements of operations and comprehensive loss.

Estimates

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.

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
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(Expressed in US Dollars, unless otherwise stated)

3. BASIS OF PREPARATION (Continued)

- (d) Use of judgments and estimates (continued)

Estimates (continued)

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.

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 10.

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.

4. 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.

DOXA ENERGY LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in US Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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.

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.

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Notes to Consolidated Financial Statements
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(Expressed in US Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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).

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(vi) Depletion and depreciation (continued)

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.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(vi) Depletion and depreciation (continued)

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.

(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.

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.

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).

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue recognition

Change in accounting policy

The Company adopted the requirements of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") effective January 1, 2018, which replaces IAS 18 *Revenue* using the modified retrospective approach. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model as follows:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price, which is the total consideration provided by the customer;
- allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- recognize revenue when the relevant criteria are met for each performance obligation.

The adoption of IFRS 15 did not result in any changes to the Company's accounting policies for revenue recognition and therefore, did not result in any transitional adjustments to the Company's financial statements.

Revenue from the sale of oil and natural gas is recognized when performance obligations are satisfied. Performance obligations are satisfied at the point in time when products are delivered based on volumes to customers at contractual delivery points, and prices have been agreed with the purchaser and collectability is reasonably assured. Delivery is generally at the time the oil enters the tanks and when natural gas 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. The costs associated with the deliver are recognized the same year in which the related revenue is earned and recorded.

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Provisions (continued)

(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.

(g) Income taxes

The Company uses the asset and liability 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(l) Financial instruments

The Company adopted the new accounting standard IFRS 9 *Financial Instruments* effective January 1, 2018 using the modified retrospective approach. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 and accordingly, the comparative information for the year ended December 31, 2017 is presented under IAS 39 *Financial Instruments: recognition and measurement*. There were no changes to the carrying value of any of the Company's assets or liabilities as a result of this new accounting standard.

The Company did a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	January 1, 2018	
	IAS 39	IFRS 9
Financial Asset		
Cash and cash equivalents	Fair value through profit and loss ("FVTPL")	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Financial Liability		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Loan payable	Amortized cost	Amortized cost
Credit facility	Amortized cost	Amortized cost

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (continued)

Following is the new accounting policy for instrument instruments under IFRS 9:

Financial assets

(i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss. The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to deficit when the financial instrument is derecognized or its fair value substantially decreases.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Financial instruments (continued)

Financial assets (continued)

(ii) Classification of financial assets (continued)

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

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

Financial liabilities

(i) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(ii) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (continued)

Financial liabilities (continued)

(ii) Classification of financial liabilities (continued)

Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of comprehensive loss.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

(m) 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.

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5. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, and 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, 2018, allowance for doubtful accounts is \$nil (2017 - \$nil).

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

	2018	2017
Cash – Canada	\$ 10,061	\$ 35,311
Cash – USA (note 2)	\$ 16,385	\$ 25,741
Accounts receivable (note 2)	\$ 40,457	\$ 56,071

All of the accounts receivable were aged less than 60 days as at December 31, 2018 and 2017.

(a) 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.

As at December 31, 2018, the Company had a cash balance of \$10,061 (2017 - \$61,052) and accounts receivable of \$184 (2017 - \$56,171) available to settle current liabilities of \$11,514 (2017 - \$4,486,995) in continuing operations.

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5. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (continued)

As at December 31, 2018, the Company had a cash balance of \$16,385 (2017 - \$nil) and accounts receivable of \$40,457 (2017 - \$nil) available, and the ability to use the Company's credit facility to settle current liabilities of \$2,133,658 (2017 - \$nil) in discontinued operations.

The Company's accounts payable and accrued liabilities have contractual maturities of 30 to 90 days. The Company's credit facility matures June 1, 2019 and the loans payable mature July 31, 2023. 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.

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5. FINANCIAL INSTRUMENTS (Continued)

- (c) Market risk (continued)
- (ii) Foreign currency risk (continued)

As at December 31, 2018 and 2017, the Company's net exposure to foreign currency risk on its financial instruments is as follows:

	2018	2017
	US\$	US\$
Cash	4,666	29,776

Based on the above, assuming all other variables remain constant, a 10% (2017 - 10%) weakening or strengthening of the Canadian dollar against the US dollar would result in an increase/decrease of approximately \$467 (2017 - \$2,978) in other comprehensive gain (loss).

6. 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, 2018. The Company is not subject to externally imposed capital requirements.

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7. PROPERTY AND EQUIPMENT

	Oil and Gas Interests	Processing and Other Equipment	Total
Cost			
Balance at December 31, 2016	\$ 2,829,321	\$ 1,502,055	\$ 4,331,376
Additions	51,183	15,860	67,043
Impairment	-	(439,028)	(439,028)
Balance at December 31, 2017	2,880,504	1,078,887	3,959,391
Additions	44,124	13,657	57,781
Revaluation of asset retirement obligation	(9,461)	-	(9,461)
Impairment	(2,275)	-	(2,275)
Assets transferred to assets held for sale (note 2)	(2,912,892)	(1,092,544)	(4,005,436)
Balance at December 31, 2018	\$ -	\$ -	\$ -
Depletion and Depreciation			
Balance at December 31, 2016	\$ (2,829,321)	\$ (642,894)	\$ (3,472,215)
Depletion and depreciation	(15,380)	(13,834)	(29,214)
Impairment	-	421,424	421,424
Balance at December 31, 2017	(2,844,701)	(235,304)	(3,080,005)
Depletion and depreciation	(8,030)	(10,120)	(18,150)
Assets transferred to assets held for sale (note 2)	2,852,731	245,424	3,098,155
Balance at December 31, 2018	\$ -	\$ -	\$ -
Carrying Amounts			
At December 31, 2017	\$ 35,803	\$ 843,583	\$ 879,386
At December 31, 2018	\$ -	\$ -	\$ -

8. EXPLORATION AND EVALUATION ASSETS

Cost	
Balance at December 31, 2016	\$ 1,149,074
Additions	117,217
Disposals	(47,835)
Balance at December 31, 2017	1,218,456
Additions	22,621
Impairment	(77,206)
Assets transferred to assets held for sale (note 2)	(1,163,871)
Balance at December 31, 2018	\$ -

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8. EXPLORATION AND EVALUATION ASSETS (Continued)

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, 2018, an amount of \$1,163,871 (2017 - \$1,218,456) remains in exploration and evaluation assets in respect of projects. The transfer of the exploration and evaluation assets to assets held for sale are described in note 2.

During the year ended December 31, 2018, the exploration and evaluation assets were classified as assets held for sale (note 2) which requires the assets to be recorded at the lower of carrying value and fair value less cost of disposal ("FVLCD"). Management assessed the FVLCD on its exploration and evaluation assets and determined the carrying amounts were greater than their FVLCD. An impairment loss of \$77,206 was recognized. Additionally, \$628 (2017 - \$nil) was recorded in plug and abandonment costs relating to non-commercially viable properties that have been fully impaired. The FVLCD was determined using a market approach based on the estimated selling price as noted in the LOI (note 2).

During the year ended December 31, 2017, the Company disposed of leases with a carrying value of \$38,502 for gross proceeds of \$276,743, which resulted in a net gain of \$238,241. The Company also decreased their interest in certain exploration projects, which amounted to \$238,241 in recovery of payables to a related party.

9. IMPAIRMENT OF PROPERTY AND EQUIPMENT

During the year ended December 31, 2018, the property and equipment were classified as assets held for sale (note 2) which requires the assets to be recorded at the lower of carrying value and FVLCD. Management assessed the FVLCD on its Koehn, Kynette, Mississippian and Sarco Creek CGUs and determined the carrying amounts of the Mississippian CGUs were greater than their FVLCD. An impairment loss of \$2,275 was recognized.

During the year ended December 31, 2017, the Company determined there were indicators of impairment given a reduction of the estimated reserve volumes and future plans. Management 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 \$17,604 was recognized.

The recoverable amounts were estimated using FVLCD 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 in the CGU. The post-tax discount rate used was 19.5% (2017 – 19.5%).

The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at December 31, 2018 and 2017:

2018:	2019	2020	2021	2022	2023	Thereafter
WTI (US\$/bbl)	47.55	48.86	50.77	51.84	52.48	constant
Henry Hub (US\$/MMbtu)	2.87	2.67	2.60	2.86	2.86	constant
2017:	2018	2019	2020	2021	2023	Thereafter
WTI (US\$/bbl)	59.38	56.19	53.76	52.29	51.67	constant
Henry Hub (US\$/MMbtu)	2.82	2.81	2.82	2.85	2.89	constant

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10. 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 2.69% (2017 - 2.50%) and an inflation factor of 1.5% (2017 - 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, 2018 and 2017:

	2018	2017
Balance, beginning of year	\$ 89,828	\$ 81,795
Change in estimate	(12,333)	1,877
Accretion	2,259	6,156
Transfer to liabilities held for sale (note 2)	(79,754)	-
Balance, end of year	\$ -	\$ 89,828

The Peeler Ranch, Epley, Martin State and Jackson Country wells have been fully impaired, therefore, a gain on change in estimate of \$5,059 (2017 - \$nil) has been recorded in accretion expense.

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

There were no share issuances during the years ended December 31, 2018 and 2017.

(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.

	Number of Options	Weighted Average Exercise Price (CDN\$)
Balance, December 31, 2016	600,000	0.15
Expired	(600,000)	0.15
Balance, December 31, 2017 and 2018	-	-

(d) Warrants

At December 31, 2018 and 2017, the Company has no warrants issued and outstanding.

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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% compound per annum.

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% compound per annum.

As at December 31, 2018, the loans were recorded at CDN\$2,760,375 (principal of CDN\$2,509,432 and accrued fiscal 2018 interest of CDN\$250,943) and CDN\$811,875 (principal of CDN\$738,068 and accrued fiscal 2018 interest of CDN\$73,807), respectively (note 15).

As at December 31, 2017, the loans were recorded at CDN\$2,509,432 (principal of CDN\$2,281,302 and accrued fiscal 2017 interest of CDN\$228,130) and CDN\$738,068 (principal of CDN\$670,971 and accrued fiscal 2017 interest of CDN\$67,097), respectively (note 15).

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. On July 31, 2018 the due date for all of the loans payable to Armada and Harvco were amended to July 31, 2023.

Balance, December 31, 2016	\$ 2,198,853
Accrued interest	227,561
Foreign exchange	162,169
Balance, December 31, 2017	2,588,583
Accrued interest	250,740
Foreign exchange	(220,863)
Balance, December 31, 2018	\$ 2,618,460

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 \$750,000 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 guaranteed by one officer and one director of the Company, and is secured by the oil and gas assets of the Company.

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13. CREDIT FACILITY (Continued)

During the year ended December 31, 2017, the borrowing capacity of the loan was adjusted from \$550,000 to \$175,000 and the maturity date was extended to June 1, 2019. All other terms remain the same. As at December 31, 2018, the Company had drawn upon \$153,100 (2017 - \$173,133) of the credit facility. During the year ended December 31, 2018 the credit facility has been transferred to liability held for sale (note 2).

14. SEGMENTED INFORMATION

The Company has one operating segment, which is the acquisition and exploration of oil and gas properties. This operating segment was treated as an asset held for sale and discontinued operations as at December 31, 2018.

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, 2018, the Company was charged legal fees of CDN\$20,885 (2017 - CDN\$4,372) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee. As at December 31, 2018, the Company recorded CDN\$14,563 (2017 - CDN\$nil) in accounts payable owing to S. Paul Simpson Law Corp.

At December 31, 2018, the Company has CDN\$2,509,432 (2017 - CDN\$2,281,302) in loans payable and accrued interest of CDN\$250,943 (2017 - CDN\$228,130) owing to Armada, a company controlled by the chairman of the Company (note 12).

At December 31, 2018, the Company has CDN\$738,068 (2017 - CDN\$738,068) in loans payable and accrued interest of CDN\$73,807 (2017 - CDN\$67,097) owing to Harvco, a company controlled by the president and director of the Company (note 12).

At December 31, 2018, the Company has \$1,698,264 (2017 - \$1,697,028) 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.

During the year ended December 31, 2018, the Company recorded \$174,716 (2017 - \$145,230) in oil and gas revenue and incurred \$87,844 (2017 - \$44,129) in direct operating expenses with Dynamic Production, Inc. relating to the Company's developed and producing oil and gas properties. As at December 31, 2018, the Company has \$15,109 (2017 - \$30,622) in accounts receivable from Dynamic Production, Inc.

There was no key management compensation during the years ended December 31, 2018 and 2017.

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16. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% (2017 - 26.00%) to income before income taxes. The reasons for the differences are as follows:

	2018	2017
Net income (loss)	\$ (284,918)	\$ 107,959
Statutory income tax rate	27.00%	26.00%
Income tax expense (recovery)	(76,928)	28,069
Items not deductible for tax purposes	-	(83,384)
Origination and reversal of temporary differences	(1,366)	-
Effect of change in tax rates	-	858,807
Under provided in prior years	-	(1,403,412)
Impact of effective tax rate of other countries	-	33,728
Unrecognized tax benefits	78,294	566,192
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, 2018 and 2017 are presented below:

	2018	2017
Deferred income tax assets		
Non-capital losses	\$ 21,776	\$ 32,368
Total deferred income tax assets	21,776	32,368
Deferred income tax liabilities		
Property and equipment	(21,776)	(32,368)
Total deferred income tax liability	(21,776)	(32,368)
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:

	2018	2017
Non-capital losses	\$ 8,849,000	\$ 8,979,000
Other	94,000	93,000
Unrecognized deductible temporary differences	\$ 8,943,000	\$ 9,072,000

As at December 31, 2018, the Company has US non-capital losses of \$5,104,000 in discontinued operations that may be applied to reduce future US taxable income.

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16. INCOME TAXES (Continued)

As at December 31, 2018, the Company has Canadian non-capital losses of CDN\$5,109,000 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	320,000
2036	324,000
2037	347,000
2038	394,000
	<hr/>
	\$ 5,109,000