

**KNOL RESOURCES CORP.**

Financial Statements

For the years ended December 31, 2017 and 2016



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## Independent Auditor's Report

To the Shareholders of Knol Resources Corp:

We have audited the accompanying financial statements of Knol Resources Corp., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of net loss and comprehensive loss, statements of changes in shareholders' equity and the statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Knol Resources Corp. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants  
April 19, 2018  
Calgary, Alberta

**KNOL RESOURCES CORP.**  
**Statements of Financial Position**  
**In Canadian dollars**

	<b>December 31</b>	December 31
	<b>2017</b>	2016
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	<b>3,680,955</b>	4,278,982
Current portion of restricted cash (note 6)	<b>335,349</b>	-
Accounts receivable	<b>2,813</b>	3,990
Prepaid expenses	<b>1,506</b>	1,506
<b>Total current assets</b>	<b>4,020,623</b>	4,284,478
Non-current portion of restricted cash (note 6)	<b>26,603</b>	26,603
<b>Total assets</b>	<b>4,047,226</b>	4,311,081
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	<b>31,640</b>	45,462
Liabilities associated with assets held for sale (note 5)	<b>350,000</b>	50,000
Asset retirement obligation (note 6)	<b>50,000</b>	250,000
<b>Total liabilities</b>	<b>431,640</b>	345,462
<b>Shareholders' equity</b>		
Share capital (note 7a)	<b>75,191,873</b>	75,191,873
Equity reserves (note 7b)	<b>23,032,693</b>	22,947,225
Deficit	<b>(94,608,980)</b>	(94,173,479)
<b>Total shareholders' equity</b>	<b>3,615,586</b>	3,965,619
<b>Total liabilities and shareholders' equity</b>	<b>4,047,226</b>	4,311,081

**Basis of presentation** (note 3a)

**On behalf of the Board of Directors:**

\_\_\_\_\_  
*"Mark Vanry"* Director      \_\_\_\_\_  
*"Michael Atkinson"* Director

See the accompanying notes to the financial statements.

**KNOL RESOURCES CORP.**  
**Statements of Net Loss and Comprehensive Loss**  
**In Canadian dollars**

	<b>Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>General and administrative expenses</b>		
Consulting fees (note 9)	200,664	181,760
Share-based compensation (note 7b)	85,468	-
Legal and audit services (note 10)	50,737	190,276
Investor relations, exchange listing and filing fees	19,041	22,663
Insurance	13,000	14,867
Office expenses	8,418	10,853
Land leases	5,853	5,824
<b>Total general and administrative expenses</b>	<b>(383,181)</b>	<b>(426,243)</b>
<b>Other income (expenses)</b>		
Environmental reclamation (note 6)	(100,000)	(203,631)
Interest income	47,680	56,644
Gain on write-off of accounts payable and accrued liabilities	-	12,154
<b>Net loss before income taxes</b>	<b>(435,501)</b>	<b>(561,076)</b>
Income taxes	-	-
<b>Net loss and comprehensive loss</b>	<b>(435,501)</b>	<b>(561,076)</b>
<b>Basic and diluted loss per share (note 7c)</b>	<b>(0.01)</b>	<b>(0.01)</b>

See the accompanying notes to the financial statements.

**KNOL RESOURCES CORP.**  
**Statements of Changes in Shareholders' Equity**  
**In Canadian dollars**

	Common Shares	Equity Reserves			Deficit	Total
		Expired Options and Warrants	Outstanding Options and Warrants	Equity Reserves Subtotal		
	\$	\$	\$	\$	\$	\$
January 1, 2016	75,191,873	22,509,921	437,304	22,947,225	(93,612,403)	4,526,695
Expiration of warrants	-	297,991	(297,991)	-	-	-
Net loss and comprehensive loss	-	-	-	-	(561,076)	(561,076)
December 31, 2016	75,191,873	22,807,912	139,313	22,947,225	(94,173,479)	3,965,619
Share-based compensation	-	-	85,468	85,468	-	85,468
Expiration of options	-	74,301	(74,301)	-	-	-
Net loss and comprehensive loss	-	-	-	-	(435,501)	(435,501)
<b>December 31, 2017</b>	<b>75,191,873</b>	<b>22,882,213</b>	<b>150,480</b>	<b>23,032,693</b>	<b>(94,608,980)</b>	<b>3,615,586</b>

See the accompanying notes to the financial statements.

# KNOL RESOURCES CORP.

## Statements of Cash Flows

In Canadian dollars

	Years Ended December 31	
	2017	2016
	\$	\$
<b>Cash and cash equivalents (used in) provided by:</b>		
<b>Operating activities</b>		
Net loss for the period	(435,501)	(561,076)
Add back non-cash expenses		
Share-based compensation	85,468	-
Less non-operating items:		
Interest income	(47,680)	(56,644)
(Less) add back changes in non-cash working capital:		
Current portion of restricted cash	(335,349)	-
Accounts receivable and prepaid expenses	1,177	12,003
Accounts payable and accrued liabilities	(13,822)	(6,510)
Asset retirement obligation	100,000	206,150
<b>Total cash and cash equivalents used in operating activities</b>	<b>(645,707)</b>	<b>(406,077)</b>
<b>Investing activities</b>		
Interest received	47,680	56,644
<b>Total cash and cash equivalents provided by investing activities</b>	<b>47,680</b>	<b>56,644</b>
<b>Decrease in cash and cash equivalents</b>	<b>(598,027)</b>	<b>(349,433)</b>
<b>Cash and cash equivalents beginning of the period</b>	<b>4,278,982</b>	<b>4,628,415</b>
<b>Cash and cash equivalents end of the period</b>	<b>3,680,955</b>	<b>4,278,982</b>

See the accompanying notes to the financial statements.

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**1. NATURE OF OPERATIONS**

Knol Resources Corp. (the "Corporation") currently has no significant business activities or operating assets and is seeking a strategic business or asset acquisition that would benefit from the Corporation's balance of cash and cash equivalents, its status as a publicly-listed entity and its historical tax losses.

The Corporation is incorporated in Alberta, Canada, and its principal place of business is Suite 1703, Three Bentall Centre, 595 Burrard Street, Vancouver, BC, V7X 1J1.

The Corporation's common shares trade on the NEX tier of the TSX-Venture Exchange under the symbol "NOL.H".

**2. STATEMENT OF COMPLIANCE**

These financial statements, including comparative periods, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Corporation's Board of Directors on April 19, 2018.

**3. ACCOUNTING POLICIES**

**a) Basis of presentation**

These financial statements have been prepared on a historical cost basis except for the assets and related liabilities classified as held for sale, which are measured at fair value, and financial instruments which are described in note 3b.

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

**b) Financial instruments**

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities" as follows:

**i. Financial assets**

Financial assets comprise cash and cash equivalents, accounts receivable and restricted cash. Cash and cash equivalents comprise deposits held at financial institutions, and are classified as fair value through profit and loss and are measured at fair value. Accounts receivable are classified as loans and receivables and are recorded at amortized cost less any impairment. Restricted cash includes cash on deposit with regulators for future environmental reclamation, and is classified as fair value through profit and loss and measured at fair value.

**3. ACCOUNTING POLICIES (continued)**

**b) Financial instruments (continued)**

ii. Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities, which are classified as financial liabilities measured at amortized cost using effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as financing expense.

**c) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Corporation's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Fair value is based on recent purchase offers, market transactions for similar assets, or appropriate valuation models.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in the statement of loss and comprehensive loss. Property, plant and equipment and intangible assets are no longer depreciated once classified as held for sale, but interest and other expenses attributable to the liabilities of a disposal group or asset held for sale are recognized.

**d) Asset retirement obligation**

The Corporation recognizes an asset retirement obligation, in the period a well or related asset is drilled, constructed or acquired, for the expected costs to abandon wells and related facilities, remove equipment from leased acreage and return such land to its original condition. The asset retirement obligation is estimated at the present value of the estimated expected future cash outflows, discounted using a risk-free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment and a corresponding liability is recognized.

Subsequent to initial recognition, the obligation is reviewed regularly by management, based upon current regulations, costs, technologies and industry standards, as well as to changes in the risk-free rate. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. The accretion of the obligation is recorded as a financing cost in the statements of net loss and comprehensive loss,

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**3. ACCOUNTING POLICIES (continued)**

**d) Asset retirement obligation (continued)**

and actual abandonment and reclamation expenditures are charged to the accumulated obligation as incurred and obligations related to properties disposed are removed.

The amount of the capitalized retirement obligation is depleted and depreciated on the same basis as the other capitalized property, plant and equipment.

**e) Share-based compensation**

Stock options granted by the Corporation to directors, officers, employees and consultants are measured at their fair values. Fair values of stock options issued are determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options; a corresponding increase is recorded to equity reserves.

When stock options are exercised, the cash proceeds along with the amount previously recorded as equity reserves are recorded as share capital. At the end of each reporting period, the Corporation revises its estimate of the number of options expected to vest.

**f) Share purchase warrants**

Warrants with the right to acquire common shares in the Corporation are typically issued through the Corporation's equity financing activities. Warrants issued to agents as compensation for financing services are measured at their fair values, determined on their issuance date using the Black-Scholes option pricing model, and are recorded as both equity reserves and as a reduction in the values of related debt or share capital. Warrants issued as part of a share unit are valued at the difference between the purchase price of the share unit and the fair market value of the Corporation's shares on the date the share units are issued, with any value attributed to these warrants being recorded in equity reserves.

When share purchase warrants are exercised, the cash proceeds along with the amount previously recorded as equity reserves are recorded as share capital.

**g) Share issuance costs**

Costs incurred to issue shares, which may include cash or equity-settled payments, are accounted for as a reduction in share capital.

**h) Income taxes**

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**3. ACCOUNTING POLICIES (continued)**

**h) Income taxes (continued)**

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

**i) Per share amounts**

Basic (loss) earnings per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which include stock options and warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of “in-the-money” stock options are used to purchase common shares of the Corporation at their average market price for the period. In periods that the Corporation reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

**j) Judgments, estimates and measurement uncertainty**

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management’s expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make judgments, significant estimations or where measurements are uncertain are as follows:

**i. Asset retirement obligation**

The asset retirement obligation reported by the Corporation is based on estimates for the amount and timing of future cash flows for property reclamation. Where possible, the Corporation’s management uses quotes from reclamation service providers in establishing the amount of reclamation expenses and estimates for the timing of such expenses is based on

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**3. ACCOUNTING POLICIES (continued)**

**j) Judgments, estimates and measurement uncertainty (continued)**

i. Asset retirement obligation (continued)

related property productivity and the requirements of environmental regulators. The amount or timing of actual reclamation expenditures could differ from those used to determine the asset retirement obligation provision, and could result in an increase or decrease in related expenses.

ii. Assets and liabilities held for sale

The measurement of assets and liabilities held for sale requires management to use judgment to estimate their fair values. Management bases these fair values on factors such as prices discussed during sale negotiations and estimates for discounted present values of cash flows related to these assets and liabilities.

An inability to successfully negotiate a sale of these assets and liabilities, or changes to the amount or timing of related cash flows could adversely affect their fair values.

iii. Income taxes

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Corporation to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Corporation will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Corporation's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

iv. Share-based compensation

The Corporation uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires management to estimate the volatility of the Corporation's future share price, the risk-free interest rate, expected lives of stock options and future dividend yields and the number options granted which will be forfeited before vesting. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**3. ACCOUNTING POLICIES (continued)**

**k) New and amended IFRS adopted by the Corporation**

The Corporation has applied the following new IFRS amendment starting January 1, 2017:

IAS 7, Statement of Cash Flows

Amendments to IAS 7 require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

**l) Future changes in accounting standards**

The following are new and revised accounting pronouncements that have been issued, but are not yet effective for the year beginning January 1, 2017:

i. IFRS 9, Financial Instruments

IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be measured at amortized cost or at fair value based on the Corporation's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 is effective for years beginning on or after January 1, 2018.

ii. IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

The eventual application of these standards is not expected to have a significant impact on the Corporation's existing accounting policies or financial statement presentation.

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**4. CASH AND CASH EQUIVALENTS**

As at December 31, 2017, the Corporation held cash in an operating account with a Schedule 1 Chartered Canadian bank and cash equivalents in the form of a term deposit with another Canadian financial institution with an R-1(low) credit rating from DBRS. The term deposit can be withdrawn on demand and earns a rate of 1.30% as at December 31, 2017 (December 31, 2016 – 1.15%). A breakdown of the Corporation’s cash and cash equivalents is as follows:

	<b>December 31, 2017</b>	December 31, 2016
	\$	\$
Cash	<b>60,683</b>	81,213
Cash equivalents	<b>3,620,272</b>	4,197,769
<b>Total</b>	<b>3,680,955</b>	4,278,982

Interest earned on the Corporation’s cash and cash equivalents for the year ended December 31, 2017 was \$47,680 (2016 - \$56,644).

**5. LIABILITIES CLASSIFIED AS HELD FOR SALE**

The Corporation holds working interests in two abandoned wellsites for which reclamation is required. One site is a 50% working interest which the Corporation had attempted to assign or surrender to another party. As at December 31, 2016, no asset value was attributed to it, but because the Corporation was actively attempting to assign the site to another party, a \$50,000 liability for assets held for sale was recorded for the estimated costs of disposal. In 2017, the Corporation was unable to complete the assignment, and the liability was reclassified as an asset retirement obligation.

As at December 31, 2016, the Corporation had planned to reclaim the second site for an amount classified as an asset retirement obligation. However, in December 2017, the Company and the landowner entered into an agreement whereby the Company would pay \$335,000 to the landowner for the assignment of all wellsite license rights and obligations, including reclamation obligations, for the site to the landowner. As a result, in 2017, the Corporation reclassified the liability associated with this site as a \$350,000 liability held for sale which represents the \$335,000 payment and other costs of disposal.

In connection with this agreement, the Corporation has placed \$335,349 in an escrow account held with its legal counsel, and which is presented as the current portion of restricted cash in the statement of financial position as at December 31, 2017. Upon final approval by regulatory bodies of the assignment the landowner, these funds will be released to the landowner, but should such approvals not be obtained, the funds will be returned to the Corporation. Additionally, the Corporation holds a \$26,603 deposit with the Alberta Energy Regulator. These funds will be returned to the Corporation upon an application for refund that would be submitted following the successful assignment of the wellsite and the Corporation will reclassify these restricted funds from non-current to current upon this submission.

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**5. LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)**

Changes to the Corporations liabilities held for sale are summarized as follows:

	<b>Carrying Amount</b>
	<b>\$</b>
January 1, 2016 and December 31, 2016	50,000
Transferred to asset retirement obligation	(50,000)
Transferred from asset retirement obligation	350,000
<b>December 31, 2017</b>	<b>350,000</b>

**6. ASSET RETIREMENT OBLIGATION**

Prior to entering into the December 2017 agreement to assign one of the Corporation's well interests (see note 5), the Corporation and the landowner of the wellsite held discussions regarding the extent of reclamation required with consideration given to the landowner's expected end use for the land. As the landowners expected end use for the land changed, the Company's expected scope for reclamation changed, resulting in changes in expected reclamation costs of \$100,000 and \$206,150 in the years ended December 31, 2017 and 2016, respectively.

As discussed in note 5, the Corporation has recorded a \$50,000 asset retirement obligation for a wellsite that was previously classified as a liability held for sale. The operator of the wellsite has not provided a timeline for potential reclamation so the asset retirement obligation reflects the Corporation's undiscounted expected cost for reclamation with consideration given to the size, terrain and surrounding vegetation of the site.

Changes to the Corporation's asset retirement obligation during the years ended December 31, 2017 and 2016 summarized as follows:

	<b>Carrying Amount</b>
	<b>\$</b>
January 1, 2016	43,850
Change in expected reclamation costs	206,150
December 31, 2016	250,000
Change in expected reclamation costs	100,000
Transferred to liabilities held for sale	(350,000)
Transferred from liabilities held for sale	50,000
<b>December 31, 2017</b>	<b>50,000</b>

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**7. SHAREHOLDERS' EQUITY**

**a) Share capital – common and preferred shares**

The Corporation's share capital as at December 31, 2017 and 2016 comprises the following:

<b>Class</b>	<b>Number of Common Shares Issued and Outstanding</b>	<b>Assigned Value</b>
		<b>\$</b>
Common shares, no par value (unlimited authorized)	55,696,470	75,191,873
Preferred shares, no par value (unlimited authorized)	-	-

There have been no changes to the Corporation's share capital in the years ended December 31, 2017 or 2016.

**b) Equity reserves - stock options and warrants**

*i. Stock options*

Pursuant to the Corporation's stock option plan, the aggregate number of shares that may be reserved for issuance under the plan shall not exceed 10% of the Corporation's issued and outstanding common shares. The number of options granted, as well as their vesting terms, contractual lives and exercise prices are at the discretion of the Board of Directors, provided that the exercise price is not less than the market price of the common shares on the grant date.

Changes to stock options outstanding are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
		<b>\$</b>
Outstanding, January 1, 2016 and December 31, 2016	1,500,000	0.10
Options granted	1,300,000	0.08
Options expired	(800,000)	0.10
<b>Outstanding, December 31, 2017</b>	<b>2,000,000</b>	<b>0.09</b>

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**7. SHAREHOLDERS' EQUITY (continued)**

**b) Equity reserves - stock options and warrants (continued)**

During the year ended December 31, 2017, the Corporation granted, in two awards, a total of 1,300,000 stock options to directors, officers and employees of a firm providing consulting services to the Corporation. The stock options, all of which vested on granting, have an exercise price of \$0.08 and expire five years after being granted. As a result of these option grants, the Corporation recorded a share-based compensation expense of \$85,468 for the period based on the combined fair value of these options. This fair value was determined using the Black-Scholes option-pricing model using the following weighted-average inputs:

<b>Input</b>	<b>Value</b>
Exercise price	\$0.08
Market price of common shares on grant date	\$0.08
Volatility	130%
Risk-free rate	1.29%
Expected life	5 years
Dividend yield	0.00%

Stock options outstanding and exercisable as at December 31, 2017 are summarized as follows:

<b>Exercise price</b>	<b>Number of Options Outstanding</b>	<b>Expiration Date</b>	<b>Number of Exercisable Options</b>
\$0.10	700,000	May 21, 2019	700,000
\$0.08	1,025,000	March 22, 2022	1,025,000
\$0.08	275,000	September 13, 2022	275,000
	<b>2,000,000</b>		<b>2,000,000</b>

*ii. Warrants*

The Corporation may issue warrants as a premium to participants in placements of its common shares or as compensation to those who facilitate such placements or who provide services to the Corporation.

Changes to warrants outstanding are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
		<b>\$</b>
Outstanding, January 1, 2016	52,570,600	0.20
Warrants expired	(2,570,600)	0.10
<b>Outstanding, December 31, 2016 and 2017</b>	<b>50,000,000</b>	<b>0.20</b>

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**7. SHAREHOLDERS' EQUITY (continued)**

**b) Equity reserves - stock options and warrants (continued)**

Warrants outstanding and exercisable as at December 31, 2017 are summarized as follows:

<b>Exercise price</b>	<b>Number of Warrants Outstanding</b>	<b>Expiration Date</b>
\$0.20	50,000,000	April 11, 2019 <sup>1</sup>

<sup>1</sup> If the market closing price and the volume-weighted average price of the Corporation's shares are both greater than \$0.40 for a period of 10 consecutive trading days, the Corporation may, at its sole discretion, issue notice of an accelerated expiration of these warrants upon which they will expire 30 days following the issuance of such notice.

**c) Per share amounts**

Basic and diluted loss per share are calculated as follows:

<b>\$ - unless otherwise stated</b>	<b>Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Numerator</b>		
Net loss and comprehensive loss	(435,501)	(561,076)
<b>Denominator</b>		
Basic and diluted weighted average number of shares outstanding	55,696,470	55,696,470
<b>Basic and diluted loss per share</b>	<b>(0.01)</b>	<b>(0.01)</b>

The calculation of diluted loss per share excludes the impact from the potential exercise of stock options and warrants as their inclusion is anti-dilutive in periods in which a net loss is incurred.

**8. COMMITMENTS & CONTINGENCIES**

Under the terms of certain agreements and the by-laws of the Corporation, the Corporation indemnifies individuals who have acted at the request of the Corporation to be a director and/or officer to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. As at or subsequent to the end of the reporting period, the Corporation is unaware of any claims or actions that would materially affect its reported financial position or results from operations.

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**9. RELATED PARTY TRANSACTIONS**

Consulting fees for the year ended December 31, 2017 includes \$30,000 (2016 - \$30,000) for consulting services provided by Michael Atkinson, the Corporation's President and Chief Executive Officer. The fees were incurred for management and business development services provided in the normal course of business, and have been measured at an exchange amount.

Consulting fees for the year ended December 31, 2017 includes \$96,000 (2016 - \$92,000) for consulting services performed by Earlston Management Corp. ("Earlston"), an entity related by virtue of providing key management services to the Corporation. As at December 31, 2017, \$8,000 (December 31, 2016 - \$6,000) is included in accounts payable and accrued liabilities for amounts owing to Earlston.

Share-based compensation for the year ended December 31, 2017 includes \$85,468 (2016 - \$nil) for stock options granted to directors, officers and employees of Earlston in the period. No other cash or non-cash compensation was paid to directors, officers or key members of management in the years ended December 31, 2017 or 2016.

**10. TERMINATED ACQUISITION**

Legal and audit services for the year ended December 31, 2016 include \$157,000 in legal fees incurred in connection with a proposed transaction in which the Corporation would acquire 100% of the issued and outstanding shares in KEWA Financial Inc. This transaction was ultimately terminated in October 2016.

**11. INCOME TAXES**

The Corporation's income tax recovery (expense) reflects an effective tax rate that differs from the statutory tax rate. A reconciliation of this difference is as follows:

	<b>2017</b>	2016
	\$	\$
Expected income tax recovery from net loss at statutory tax rates (2017: 27%; 2016: 27%)	<b>117,585</b>	151,491
Less accounting expenses not deductible for income tax purposes	<b>(23,076)</b>	-
Adjustments to enacted tax rates and prior year adjustments	-	(47,860)
Change in unrecognized deductible temporary differences and other	<b>(94,509)</b>	(103,631)
<b>Income tax recovery</b>	<b>-</b>	<b>-</b>

**KNOL RESOURCES CORP.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**11. INCOME TAXES (continued)**

Deferred tax assets as at December 31, 2017 and 2016 have been calculated using a substantively enacted tax rate of 27% and comprise the following:

	<b>December 31</b>	December 31
	<b>2017</b>	2016
	\$	\$
<b>Deferred tax assets:</b>		
Non-capital loss carry-forwards	<b>9,477,242</b>	9,297,520
Capital loss carry-forwards	<b>2,698,546</b>	2,698,546
Temporary differences in property, plant and equipment	<b>2,402,331</b>	2,492,256
Share issuance costs	<b>20,844</b>	43,165
Asset retirement obligations and liabilities held for sale	<b>108,000</b>	81,000
Total deferred tax asset	<b>14,706,963</b>	14,612,487
Unrecognized deferred tax asset	<b>(14,706,963)</b>	(14,612,487)
<b>Deferred tax asset</b>	<b>-</b>	<b>-</b>

There is no objective evidence that the benefit from the Corporation's deferred tax assets will be realized, therefore the Corporation has not recognized any deferred tax asset at December 31, 2017. Should the Corporation demonstrate future profitability, these assets may be fully or partially recognized.

As at December 31, 2017, the Company has non-capital loss carry-forwards available to carry forward to future years totaling approximately \$35.3 million (December 31, 2016 - \$34.4 million).

The current balance expires as follows:

<b>Year</b>	<b>Amount (\$ millions)</b>
2018	-
2019	-
2020	-
2021	-
2022	-
2023 and beyond	35.3
<b>Total</b>	<b>35.3</b>

## **12. FINANCIAL INSTRUMENTS**

### **a) Fair value of financial instruments**

The Corporation's financial instruments as at December 31, 2017 consist of cash, accounts receivable, restricted cash, and accounts payable and accrued liabilities. Due to the short term nature of these instruments, their carrying values approximate their fair values. The fair values of financial instruments are allocated between three levels of a fair value hierarchy, based on the degree of certainty around the fair values. The levels and the valuation techniques used to value financial instruments are as follows:

#### *Level 1 - Quoted prices in active markets for identical assets*

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

#### *Level 2 - Significant other observable inputs*

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

#### *Level 3 - Significant unobservable inputs*

Significant reliance is placed on unobservable prices, supported by little or no market activity.

As at December 31, 2017, cash and cash equivalents and restricted cash held by the Corporation were considered to be Level 1 financial instruments.

### **b) Classification of financial instruments**

All financial assets (except for cash and cash equivalents and restricted cash which are classified as fair value through profit and loss) are classified as loans and receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There are no financial assets on the consolidated statement of financial position that have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the year ended December 31, 2017.

### **c) Financial instrument risk management**

The nature of the Corporation's financial instruments and its operations expose the Corporation to market risks and credit risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors of the Corporation has the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

## **12. FINANCIAL INSTRUMENTS (continued)**

### **c) Financial instrument risk management (continued)**

#### **i. Market risks**

Market risks include unfavorable movements in commodity prices, interest rates, and foreign exchange rates. As at December 31, 2017, the Corporation held no producing assets, held the majority of its net assets in cash and cash equivalents, did not have any interest-bearing liabilities and has no commercial operations. Consequently, the Corporation has no significant exposure to market risks.

#### **ii. Credit risk**

Credit risk is the risk of default on payment of the financial assets held by the Corporation by counterparties to these assets. The Corporation is exposed to credit risk with respect its balance of cash and cash equivalents, \$3,620,272 of which was held by one financial institution as at December 31, 2017. Although the Corporation ensures the credit ratings of the financial institutions it deals with are high, and that its cash and cash equivalents are held with Schedule 1 Canadian banks or with institutions that are guaranteed by a Canadian provincial government, the Corporation is exposed to the risk of default by one or more of these institutions.

The Corporation currently has no oil and gas income and its accounts receivable comprises nominal levels of sales taxes refundable by the Canada Revenue Agency. As a result, it has no significant exposure to credit risk with respect to its accounts receivable.

## **13. CAPITAL MANAGEMENT**

The Corporation's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation defines capital as shareholders' equity and working capital. The Board of Directors does not establish quantitative return on capital criteria for management.

As at December 31, 2017, the Corporation's focus is to preserve the base of its cash available for redeployment in producing assets. There have been no changes in the Corporation's capital management strategies and processes during the year ended December 31, 2017.

The Corporation has no externally imposed capital requirements and there are no external financial covenants to which the Corporation must adhere.