Silk Road Energy Inc.

FINANCIAL STATEMENTS

For the years ended September 30, 2016 and 2015

(Expressed in Canadian Dollars)

Independent Auditors' Report

To the Shareholders of Silk Road Energy Inc.

We have audited the accompanying financial statements of Silk Road Energy Inc., which comprise the statements of financial position as at September 30, 2016 and 2015, the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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 whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our 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 Silk Road Energy Inc. as at September 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Silk Road Energy Inc.'s ability to continue as a going concern.

MNP LLP

Calgary, Alberta
January 30, 2017

Chartered Professional Accountants

MNP

Silk Road Energy Inc.
STATEMENTS OF FINANCIAL POSITION
As at September 30,

		2016	2015
ASSETS			
Current assets			
Cash	$	**41,739**	487,717
Accounts receivable (Note 10)		**39,418**	17,891
		81,157	505,608
Petroleum and natural gas interests (Note 5)		**118,297**	149,654
Total assets	$	**199,454**	655,262
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**133,405**	210,909
Decommissioning liability (Note 6)		**84,714**	76,107
Total liabilities		**218,119**	287,016
SHAREHOLDERS' EQUITY			
Share capital (Note 8)		**1,214,993**	1,214,993
Contributed surplus		**162,341**	162,341
Deficit		**(1,395,999)**	(1,009,088)
Total shareholders' equity (deficit)		**(18,665)**	368,246
Total liabilities and shareholders' equity	$	**199,454**	655,262

Nature of operations and going concern (Note 1)

On Behalf of the Board

"Signed Paul Craig"

"Signed Vladimir Katic"

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the years ended September 30,

		2016		2015
Petroleum and natural gas revenue	**$**	**37,120**	$	190,183
Expenses				
Operating costs		**42,933**		95,223
General and administrative		**341,134**		594,567
Depletion (Note 5)		**14,323**		97,119
Impairment (Note 5)		**24,054**		13,539
Accretion (Note 6)		**1,587**		3,613
Share based compensation (Note 9, Note 11)		**-**		269,955
		424,031		1,074,016
Loss before other items		**(386,911)**		(883,833)
Other items				
Gain on disposition of properties (Note 5)		**-**		427,295
Net loss and comprehensive loss	**$**	**(386,911)**	$	(456,538)
Loss per share				
Basic and diluted	**$**	**(0.032)**	$	(0.043)
Weighted average number of shares				
Basic and diluted		**12,012,788**		10,711,308

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Shares		Share Capital		Contributed Surplus		Deficit		Total
Balance at September 30, 2014	11,725,729	$	950,993	$	156,386	$	(552,550)	$	554,829
Shares cancelled (Note 8)	(2,352,941)		-		-		-		-
Share-based compensation (Note 9)	2,640,000		264,000		5,955		-		269,955
Net loss for the year	-		-		-		(456,538)		(456,538)
Balance at September 30, 2015	**12,012,788**	**$**	**1,214,993**	**$**	**162,341**	**$**	**(1,009,088)**	**$**	**368,246**
Net loss for the year	-		-		-		(386,911)		(386,911)
Balance at September 30, 2016	**12,012,788**	**$**	**1,214,993**	**$**	**162,341**	**$**	**(1,395,999)**	**$**	**(18,665)**

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.
STATEMENTS OF CASH FLOWS
For the years ended September 30,

CASH PROVIDED BY (USED IN) OPERATIONS		**2016**		2015
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(386,911)**	$	(456,538)
Items not requiring cash in the year				
Depletion (Note 5)		**14,323**		97,119
Impairment (Note 5)		**24,054**		13,539
Accretion (Note 6)		**1,587**		3,613
Gain on disposition of properties (Note 5)		**-**		(444,794)
Share-based compensation (Note 9)		**-**		269,955
Change in non-cash working capital items:				
Account receivable		**(21,527)**		(7,447)
Accounts payable and accrued liabilities		**(77,504)**		140,240
Cash used in operating activities		**(445,978)**		(384,313)
INVESTING ACTIVITIES				
Disposition of properties (Note 5)		**-**		700,000
Cash from investing activities		**-**		700,000
Increase (decrease) in cash		**(445,978)**		315,687
Cash, beginning of year		**487,717**		172,030
Cash, end of year	**$**	**41,739**	$	487,717

The accompanying notes form an integral part of these financial statements.

1. Nature of Operations and going concern

Silk Road Energy Inc. (the "Company") was incorporated under the laws of the Province of Alberta on November 9, 2010. The Company's principal business activity is the exploration, development and production of petroleum and natural gas assets in Alberta. The address of the registered head office is Suite 1900, 520 3rd Avenue SW, Calgary, AB T2P 0R3.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the extinguishment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. The Company reported a net loss of $386,911 and generated negative cash flow from operating activities of $445,978 for the year ended September 30, 2016. The nature of development activities is that they are capital intensive and the nature of oil and gas properties is that the production will naturally decline over time. Internally generated cash flows may be insufficient to fund the type of development that would be necessary to maintain production over the intermediate to longer term. The Company's ability to continue as a going concern is dependent upon the ability to raise additional capital, the generation of positive cash flow, the maintenance of its existing reserve and production base, the success of the development and exploration program and the continued support of its shareholders. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain and as such the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. These uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company will continue to seek appropriate financing initiatives that benefit the Company and its shareholders as well as continue to review other opportunities for the sale or farm-out of existing resource interests. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

2. Basis of Preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC") and in effect at October 1, 2015.

The financial statements were authorized for issue by the Board of Directors on January 30, 2017.

b) Basis of measurement

These financial statements have been prepared on a historical cost basis except for share-based payment transactions and certain financial instruments which are measured at fair value.

c) Functional and presentation currency

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

d) Use of estimates and judgements

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and effect on financial statements or changes in such estimates in future years could be material. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to estimates are recognized in the year in which the estimate is revised.

2. Basis of Preparation *(continued)*

In the process of applying the Company's accounting policies, management has made the following judgements, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

Cash-generating-units ("CGUs") determination

The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality. The Company has determined that at September 30, 2016 it has two (September 30, 2015 – two) CGUs being Thornbury and Bashaw.

Oil & gas reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gas interests. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of operations and comprehensive loss as further information becomes available and as the economic environment changes.

Depletion and depreciation

Depletion of petroleum and natural gas interests is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of petroleum and natural gas interests including production equipment and facilities are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations.

The calculation of the unit-of-production rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved and probable reserves.
- Changes in estimates of future development costs.
- The effect on proved and probable reserves of differences between actual production as compared to forecasts as well as commodity price assumptions.
- Unforeseen operational issues.

2. Basis of Preparation *(continued)*

d) Use of estimates and judgements *(continued)*

Impairment indicators

The Company assesses its petroleum and natural gas ("P&NG") interests for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment of impairment for P&NG interests involves comparing the carrying value of the CGU with the higher of value in use and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids.

Decommissioning obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Financial instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair values of these financial derivative instruments are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.

Share based payments

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the options, the expected volatility of the Company's shares, expected life of the options, expected dividends, and the risk-free rate of return. The Company estimates volatility based on the historical volatility of similar entities following a comparable period in their lives. The expected life of the options is based on historical experience and estimates of the holder's behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the number of options that actually vest.

2. Basis of Preparation *(continued)*

d) Use of estimates and judgements *(continued)*

Deferred Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

3. Significant Accounting Policies

a) Joint arrangements

The Company conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only the Company’s proportionate interest in such activities.

Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

b) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash, accounts receivable and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are included in the statement of operations and comprehensive loss.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in net loss. When a loan or receivable is uncollectible, it is written off against the allowance account for loans and receivables. The Company has designated accounts receivable as loans and receivables.

3. Significant Accounting Policies *(continued)*

b) Financial instruments *(continued)*

Financial assets at fair value through profit or loss:

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management and investment strategy. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in net loss. The Company has designated cash as fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is impaired, sold or otherwise disposed of, then the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company does not have any financial instruments classified as available for sale.

Other financial liabilities:

Other financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in net loss. The financial liabilities that are designated as other financial liabilities include accounts payable and accrued liabilities.

c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

3. Significant Accounting Policies *(continued)*

d) Petroleum and natural gas ("P&NG") interests

P&NG interests are carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost of an item of P&NG interests consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the period to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports 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.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&NG interests is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in loss in the period incurred.

e) Exploration and evaluation ("E&E") properties

E&E properties include land acquisition costs, geological and geophysical costs, exploratory drilling, directly attributable expenses and activities relating to evaluating the technical feasibility and commercial viability of our resources. All other expenditures are recognized in net loss as incurred.

E&E costs are capitalized and are not depleted until such time as the exploration phase is complete and technical feasibility and commercial viability of extracting the mineral resource has been demonstrated. Once demonstrated, E&E assets are tested for impairment and transferred to P&NG interests, and further development costs are capitalized to P&NG interests. E&E assets are also tested for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If it is determined that technical feasibility and commercial viability has not been achieved in relation to a property, the resulting impairment is included in loss.

3. Significant Accounting Policies *(continued)*

f) Impairment of assets

Non-financial assets

At each financial reporting date, the carrying amounts of P&NG interests and E&E assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant view of the risks associated with the assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in net loss.

Financial assets

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in net loss. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in net loss.

g) Taxes

Tax expense is comprised of current and deferred tax expenses. Tax expense is recognized in net loss except to the extent that the tax expense related to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Significant Accounting Policies *(continued)*

g) Taxes *(continued)*

Deferred tax is recognized using the liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets 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.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

h) Per share amounts

Basic loss per share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of “in-the-money” stock options and warrants would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow that are only released upon contingent events are not included in the calculation of the weighted average number of common shares.

i) Decommissioning liability

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

Decommissioning liabilities are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using a market risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time is recognized as accretion expense, within financing fees, whereas increases or decreases due to changes in the estimated cost are capitalized as P&NG interests. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depleted on the same basis as the P&NG interests to which it relates.

j) Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the financial statements.

3. Significant Accounting Policies *(continued)*

k) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in net loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

4. Recent Accounting Pronouncements

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

a) Recent accounting pronouncements not yet adopted

The International Accounting Standards Board (IASB) has issued a number of new standards to come into effect in future periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IASB issued IFRS 9, "Financial Instruments" replaces IAS 39, "Financial Instruments: Recognition and Measurement". The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. Previously multiple models were available. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the new standards on its financial statements.

IFRS 15, "Revenue from Contracts with Customers". In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company has assessed that there will be no significant impact on its financial statements from the implementation of this standard.

IAS 7 "Statement of Cash Flows" - Amendments to IAS 7 Statement of Cash Flows 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. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company has assessed that there will be no significant impact on its financial statements from the implementation of this standard.

IAS 12 "Income Taxes" - IAS 12 Income Taxes Amendments to IAS 12 Income Taxes clarify the recognition of deferred tax assets for unrealized losses related debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company has assessed that there will be no significant impact on its financial statements from the implementation of this standard.

5. Petroleum and Natural Gas Interests

Cost		
Balance, September 30, 2014	$	667,762
Disposals		(430,095)
Change in decommissioning liability		12,454
Balance, September 30, 2015	$	250,121
Change in decommissioning liability		7,020
Balance, September 30, 2016	**$**	**257,141**
Accumulated depletion and depreciation		
Balance, September 30, 2014	$	53,640
Impairment		13,539
Depletion		97,119
Disposal		(63,831)
Balance, September 30, 2015	$	100,467
Impairment		24,054
Depletion		14,323
Balance, September 30, 2016	**$**	**138,844**
Net book value, September 30, 2015	$	149,654
Net book value, September 30, 2016	**$**	**118,297**

During the year ended September 30, 2015, the Company disposed of its interest in the Columbia CGU for cash consideration of $700,000, incurred costs of disposal of $17,499 and recorded a gain on sale of $427,295.

At September 30, 2016 the Company determined that indicators of impairment existed as a result of the decline in the market price of oil and gas. The Company performed an impairment test and recorded impairment of $24,054 (September 30, 2015 - $13,539) on its Thornbury CGU. The Company determined the recoverable amounts for its CGUs using the fair value less costs to sell method based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of commodity prices, evaluated reserve volumes, and discount rates specific to the CGU. The calculation of the recoverable amount is sensitive to the assumptions regarding discount rates and commodity prices. The estimate of fair value less costs to sell (2%) was determined using a discount rate of 15% and forecasted cash flows, with escalating prices and future development costs for the Company's proved plus probable reserves. The forecast prices used to estimate the fair value less cost to sell are based on the below managements estimates.

Year	AECO Spot ($/MMBTU)	Year	AECO Spot ($/MMBTU)
2016	2.50	2020	3.60
2017	2.90	2021	3.70
2018	3.10	2022	3.90
2019	3.40	Thereafter	2%

5. Petroleum and Natural Gas Interests *(continued)*

Changes in any of the key judgments, such as a downward revision in reserves, a decrease in forecast benchmark commodity prices, changes in foreign exchange rates, an increase in royalties, or an increase in operating costs would change the recoverable amounts of assets and any changes to the impairment charges would affect net income (loss). A 5% increase in the assumed discount rate would result in an additional impairment expense of $11,000 on the Thornbury CGU for the year ended September 30, 2016.

6. Decommissioning Liability

Balance, September 30, 2014		171,097
Disposal (Note 5)		(111,057)
Accretion		3,613
Change in estimate		12,454
Balance, September 30, 2015	$	76,107
Accretion		1,587
Change in estimate		7,020
Balance at September 30, 2016	**$**	**84,714**

The Company estimates that the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $108,000 (September 30, 2015 - $108,000) which will be incurred over the next 15 years. Settlement of the obligations will be funded from general corporate funds at the time of retirement. An inflation rate of approximately 2.3% has been applied to the estimated abandonment and reclamation costs. Discount rates ranging from 1.64% to 2.16% (September 30, 2015 - 1.97% to 2.38%) were used to calculate the value of the decommissioning liability.

7. Income Tax

The net tax provision differs from that expected by applying the combined federal and provincial income tax rates of 27% for the year ended September 30, 2016.

		2016		2015
Loss before taxes	$	**(386,911)**	$	(456,538)
Statutory tax rate		**27%**		25.5%
Expected income tax recovery		**(104,466)**		(116,417)
Permanent differences:				
Share based compensation		**-**		68,839
Non-taxable portion of capital gain		**-**		(16,554)
Tax benefit not recognized		**(104,466)**		(27,746)
Change in enacted tax rates		**-**		(8,122)
Effect of share cancellation		**-**		100,000
Deferred tax recovery	$	**-**	$	-

7. Income Tax *(continued)*

The components of the net deferred tax liability at September 30, 2016 are as follows:

		2016		2015
Deferred tax liabilities:				
Petroleum and natural gas interests	**$**	**(28,340)**	$	(36,807)
Less:				
Deferred tax assets:				
Decommissioning liability		**28,340**		20,549
Share issue costs		**-**		9,587
Non-capital losses		**-**		6,671
Net deferred tax liability	**$**	**-**	$	-

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		2016		2015
Non-capital losses	**$**	**876,000**	$	469,000

As at September 30, 2016, the Company has a non-capital loss carry-forward balance of approximately $876,000 available to reduce future years' income for tax purposes. These losses will begin to expire in 2032 if not utilized.

8. Share Capital

a) Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

b) Issued – Common shares

	Number of shares		*Amount*
Balance September 30, 2014	11,725,729	$	950,993
Shares cancelled	(2,352,941)		-
Shares issued as compensation (Note 9)	2,640,000		264,000
Balance, September 30, 2015 and 2016	**12,012,788**	**$**	**1,214,993**

On January 27, 2015, the Company cancelled 2,352,941 shares issued in conjunction with an asset purchase agreement as the terms and conditions of the escrow agreement had not been achieved.

During the year ended September 30, 2015, the Company issued 2,640,000 common shares at a value of $0.10 per share to management as remuneration for services provided during the year. The issuance of shares was accounted for as an equity settled share based payment transaction and was valued at the fair value of the services received (note 8).

8. Share Capital *(continued)*

Escrow

As at September 30, 2016, the Company has 495,000 common shares (September 30, 2015 – 1,485,000) subject to an escrow agreement whereby 10% of the shares will be released upon completion and approval of the Company's Qualifying Transaction. An additional 15% of the escrowed common shares will be released on each six month anniversary thereafter unless otherwise permitted by the Exchange. Common shares issued upon the exercise of options held by officers and directors are subject to the same escrow conditions. Common shares issued upon the exercise of the agent's options are restricted such that only 50% of the issued shares on exercise of such options may be sold prior to the Company completing a Qualifying Transaction.

9. Share-based Compensation

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. However, other than in connection with a Qualifying Transaction, during the time that the Company is a CPC, the aggregate number of common shares issuable upon exercise of all options granted under the stock option plan shall not exceed 10% of the common shares at the closing of the Company's initial public offering. Such options will be exercisable up to ten years from the date of grant.

The following table summarizes information about stock options outstanding and exercisable:

	2016			2015		
	Number of Options	**Weighted Average Price**	**Weighted Average Remaining Life (years)**	Number of Options	Weighted Average Price	Weighted Average Remaining Life (years)
Balance, beginning of year	1,743,506	$ 0.11	4.97	1,743,506	$ 0.11	5.97
Balance, end of year	**1,743,506**	**$ 0.11**	**3.97**	**1,743,506**	**$ 0.11**	**4.97**

10. Financial Instruments and Risk Management

The Company's financial instruments are comprised of cash, accounts receivable and accounts payable and accrued liabilities. Fair values of financial instruments and discussion of risks associated with financial instruments are presented as follows:

Fair value of financial instruments

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – inputs to the valuation methodology are not based on observable market data.

10. Financial Instruments and Risk Management *(continued)*

Level 1 assumptions are used to value cash. The carrying value for cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial instruments.

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed and appropriate policies are in place and effective. Financial instruments present a number of specific risks. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: interest rate risk, commodity price risk and foreign currency risk. Other risks associated with financial instruments include credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has no financial instruments that create interest rate risk exposure.

Commodity risk

The nature of the Company's operations result in exposure to commodity price fluctuations. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the year ended September 30, 2016.

During the year if production remained constant and the Company realized commodity prices changed by $1.00 per thousand cubic foot, the Company's net loss would vary by $21,000.

Foreign Currency Risk

Prices for petroleum are determined in global markets and generally denominated in United States dollars. The Company had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies for the year ended September 30, 2016. An increase in the value of the Canadian dollar relative to the U.S. dollar decreases the revenues received from the sale of petroleum and natural gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar increases the revenues received from the sale of petroleum and natural gas commodities. The impact of such exchange rate fluctuations is not material.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's accounts receivable include trade accounts receivables from petroleum and natural gas marketers and goods and services tax receivable, and are subject to normal credit risk. The maximum exposure to credit risk is calculated as the total value of accounts receivable as at September 30, 2016. Significant changes in industry conditions and risks that negatively impact customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies purchasing its oil and natural gas production as well as by the accounts receivable due from the government for goods and services tax receivable.

All of the Company's accounts receivables are less than 30 days aged.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages its cash inflows from operations and capital expenditures to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic environment.

10. Financial Instruments and Risk Management *(continued)*

The Company's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consist of invoices payable to trade suppliers for general, administrative, royalty, production and capital expenditures and are usually payable in 30 to 90 days. All financial liabilities are current in nature.

11. Related party transactions

During the year ended September 30, 2016, the Company paid office rental fees of $8,457 (2015 – $4,672), consulting fees of $15,050 (2015 - $nil) to a company owned by the CEO of the Company, and consulting fees of $15,000 (2015 - $nil) to a company owned by the CFO of the Company. All of these transactions were entered into in the normal course of operations.

Key management include all officers and directors of the Company.

		2016		2015
Share-based compensation	**$**	**-**	$	269,955
Key management compensation		**132,000**		161,960

As at September 30, 2016, there was $98,950 (2015 - $42,588) included in accounts payable and accruals for key management compensation.

During the year ended September 30, 2016, the Company paid $57,771 to a company controlled by a Director of the Company, in a tax settlement associated with a 2014 purchase of P&NG assets.

12. Capital Management

The Company's policy is to maintain a strong and stable capital base for the objectives of maintaining financial flexibility, to sustain the development of the Company's current capital projects and for future development of the Company. The Company manages its capital structures and makes adjustments to it in light of changes in economic condition and risk characteristics of the underlying assets The Company monitors its working capital and expected capital spending and issues share capital to manage its development plans. The Company is not subject to any externally imposed capital requirements.

The Company considers its capital structure to include shareholders' equity.