Consolidated Financial Statements

Pinedale Energy Limited

December 31, 2018 and 2017
(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Pinedale Energy Limited:

Opinion

We have audited the consolidated financial statements of Pinedale Energy Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ronald D. Miller.

Vancouver, British Columbia

MNP LLP

April 16, 2019

Chartered Professional Accountants

MNP LLP

PINEDALE ENERGY LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Expressed in Canadian dollars]

As at

	December 31, 2018	December 31, 2017
	$	$
ASSETS		
Current		
Cash	**252,289**	2,957,089
Receivables and prepaids *[note 5]*	**1,380,081**	1,205,177
Total current assets	**1,632,370**	4,162,266
Oil and gas properties *[note 7]*	**11,693,786**	18,730,131
Total assets	**13,326,156**	22,892,397
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 6]*	**1,552,992**	2,598,222
Income tax payable	**45,439**	16,183
Current portion of promissory note *[notes 9 and 12]*	**3,833,837**	-
Current portion of long-term debt *[note 10]*	**7,366,680**	-
Total current liabilities	**12,798,948**	2,614,405
Decommissioning liability *[note 8]*	**751,831**	545,874
Promissory note *[notes 9 and 12]*	**-**	3,677,116
Long-term debt *[note 10]*	**-**	3,638,050
Deferred tax liability *[note 13]*	**42,737**	1,700,315
Total liabilities	**13,593,516**	12,175,760
Shareholders' equity (deficit)		
Share capital *[note 11]*	**5,319,746**	5,319,746
Contributed surplus	**430,591**	339,471
Accumulated other comprehensive income	**924,878**	258,327
Retained earnings (deficit)	**(6,942,575)**	4,799,093
Total shareholders' equity (deficit)	**(267,360)**	10,716,637
Total liabilities and shareholders' equity	**13,326,156**	22,892,397

Nature of operations (Note 1)

On behalf of the Board:

"John Proust"	*"Brad Windt"*
Director	Director

PINEDALE ENERGY LIMITED

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

[Expressed in Canadian dollars]

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
REVENUE		
Oil and gas sales	**9,593,846**	5,359,750
Royalties	**(2,063,077)**	(1,062,686)
Net oil and gas revenue	**7,530,769**	4,297,064
OPERATING EXPENSE		
Consulting fees	**80,325**	101,578
Depletion *[note 7]*	**1,763,451**	444,889
Production tax	**946,979**	526,236
Gathering	**962,970**	511,104
Lease operating	**869,400**	322,852
Transportation	**77,420**	32,731
	4,700,545	1,939,390
	2,830,224	2,357,674
GENERAL AND ADMINISTRATIVE EXPENSES		
Administration services	**304,995**	346,238
Consulting fees *[note 12]*	**186,621**	177,046
Share based compensation *[note 11 and 12]*	**91,120**	65,294
Interest *[note 9, 10 and 12]*	**872,928**	351,409
Foreign exchange (gain) loss	**(12,249)**	20,320
	1,443,415	960,307
OTHER ITEMS		
Impairment on oil and gas properties	**14,785,130**	-
Reverse acquisition cost *[note 4]*	-	519,728
Royalty reimbursement	-	(218,946)
	14,785,130	300,782
NET INCOME (LOSS) BEFORE TAXES	**(13,398,321)**	1,096,585
Income tax expense	**40,547**	16,068
Deferred tax recovery	**(1,697,200)**	(467,217)
NET INCOME (LOSS)	**(11,741,668)**	1,547,734
Other comprehensive income (loss)		
Exchange differences from translation of foreign operations	**666,551**	(532,254)
COMPREHENSIVE INCOME (LOSS)	**(11,075,117)**	1,015,480
Basic earnings per share	**(0.55)**	0.16
Diluted earnings per share	**(0.55)**	0.01
Basic weighted average number of common shares	**21,500,398**	9,917,003
Diluted weighted average number of common shares	**21,500,398**	117,562,533

PINEDALE ENERGY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

[Expressed in Canadian dollars]

	Number of issued and outstanding shares						
	Class A Common Shares #	**Class B Common Shares** #	**Share capital** $	**Contributed surplus** $	**Retained earnings (deficit)** $	**Accumulated other comprehensive income (loss)** $	**Total equity (deficit)** $
Balance, January 1, 2017	2,472,114	—	2,374,558	—	3,251,359	790,581	6,416,498
Shares issued for RTO *[note 4]*	4,229,096	95,770,904	482,062	—	—	—	482,062
Shares issued for private placements *[note 11]*	10,000,000	—	2,463,126	—	—	—	2,463,126
Shares issued from conversion *[note 11]*	1,439,437	(1,439,437)	—	—	—	—	—
Share based compensation *[note 11]*	—	—	—	65,294	—	—	65,294
Discount on related party loan *[notes 9 and 12]*	—	—	—	274,177	—	—	274,177
Other comprehensive loss for the year	—	—	—	—	—	(532,254)	(532,254)
Net income for the year	—	—	—	—	1,547,734	—	1,547,734
Balance, December 31, 2017	**18,140,647**	**94,331,467**	**5,319,746**	**339,471**	**4,799,093**	**258,327**	**10,716,637**
Shares issued from conversion *[note 11]*	94,331,467	(94,331,467)	—	—	—	—	—
Share based compensation *[note 11]*	—	—	—	91,120	—	—	91,120
Other comprehensive income for the year	—	—	—	—	—	666,551	666,551
Net loss for the year	—	—	—	—	(11,741,668)	—	(11,741,668)
Balance, December 31, 2018	**112,472,114**	—	**5,319,746**	**430,591**	**(6,942,575)**	**924,878**	**(267,360)**

PINEDALE ENERGY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in Canadian dollars]

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
OPERATING ACTIVITIES		
Net income (loss) for the year	**(11,741,668)**	1,547,734
Add item not affecting cash		
Impairment on oil and gas properties	**14,785,130**	-
Depletion	**1,763,451**	444,889
Other income	**-**	(49,998)
Share based compensation	**91,120**	65,294
Non-cash portion of interest expense	**110,900**	87,541
Non-cash portion of reverse acquisition cost	**-**	445,041
Deferred tax recovery	**(1,697,200)**	(467,217)
	3,311,733	2,073,284
Changes in non-cash working capital items		
Other receivables and prepaids	**(174,904)**	(768,119)
Accounts payable and accrued liabilities	**(1,045,230)**	1,972,581
Cash provided by operating activities	**2,091,599**	3,277,746
INVESTING ACTIVITIES		
Cash received on reverse acquisition	-	71,629
Investment in oil and gas properties	**(8,570,649)**	(6,791,541)
Cash used in investing activities	**(8,570,649)**	(6,719,912)
FINANCING ACTIVITIES		
Funds received on issuance of share capital	**-**	2,463,126
Funds received on promissory note	**-**	4,000,000
Borrowings (repayment) on long-term debt	**3,211,503**	(400,198)
Cash provided by financing activities	**3,211,503**	6,062,928
Increase (decrease) in cash during the year	**(3,267,547)**	2,620,762
Effects of exchange rate changes on cash	**562,747**	85,082
Cash, beginning of year	**2,957,089**	251,245
Cash, end of year	**252,289**	2,957,089
Supplemental cash flow information:		
Shares issued for RTO	**-**	482,062
Oil and gas additions in accounts payable and accrued liabilities	**307,073**	1,594,201
Decommissioning liability recognized	**170,697**	204,770
Cash interest paid	**682,284**	263,868
Cash income taxes paid	**12,479**	4,408

1. NATURE OF OPERATIONS

Pinedale Energy Limited ("Pinedale" or the "Company") was incorporated under the British Columbia Business Corporations Act on December 17, 2007. The Company is a junior resource company engaged in the identification, and the exploration and development, of both proven and unproven reserves via drilling and/or acquisition with a focus on the State of Wyoming, U.S.A. The address of the Company's registered office is Suite 1500 - 701 West Georgia Street, Vancouver, British Columbia, V7Y 106. The Company is trading on the Toronto Venture Exchange (TSX-V) under the trading symbol "MCF".

The recoverability of the costs incurred for oil and gas properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the projects and upon future profitable production or from the proceeds of disposition. The Company will require additional capital to fund its future property acquisitions, exploration and development programs as well as for administrative purposes. If management is unable to obtain additional funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these consolidated financial statements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company incurred net loss after tax of $11,741,668 during the year ended December 31, 2018, and as of that date, the Company had a deficit of $6,942,575 and negative working capital of $11,166,579. Management has carried out an assessment of the going concern assumption and, after considering subsequent events, has concluded that the cash position of the Company is sufficient to finance continued operations for the twelve-month period subsequent to December 31, 2018.

The continuity of the Company's operations is dependent on the continued exploration and development of its properties and the acquisition of new projects. Should it be determined that the Company is no longer a going concern, adjustments which may be significant could be required to the carrying value of the assets and liabilities. These consolidated financial statements do not reflect any adjustments to the carrying value of the assets or liabilities or any impact on the consolidated statements of income (loss) and comprehensive income (loss), and consolidated statements of financial position classifications that would be necessary should the going concern assumption not be appropriate.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and effective as at April 16, 2019, the date the Board of Directors approved these consolidated financial statements for issue.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost convention, except for financial assets classified as amortized cost and fair value through profit and loss ("FVTPL") which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information and are presented in Canadian dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned controlled US subsidiary, Pinedale Energy Inc., as well as the Company's wholly owned Canadian subsidiary 0970831 B.C. Ltd. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances have been eliminated upon consolidation. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates in (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of Pinedale Energy Ltd. and 0970831 BC Ltd. The functional currency of Pinedale Energy Inc., is the US dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the transaction dates. All assets and liabilities are translated into the presentation currency using the exchange rate in effect on the reporting date, shareholders equity accounts are translated using the historical rates of exchange and revenue and expenses are translated at the average rate for the year. Exchange gains and losses on translation are included as a separate component of accumulated other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Pinedale principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from Pinedale to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- Pinedale has transferred title and physical possession of the commodity to the buyer;
- Pinedale has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Pinedale has the present right to payment.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company’s revenue transactions do not contain significant financing components.

Pinedale does not have any long-term contracts with unfulfilled performance obligations and does not disclose information about remaining performance obligations with an original expected duration of 12 months or less.

Joint interests

A portion of the Company’s exploration, development and production activities are conducted jointly with others through unincorporated joint ventures. These consolidated financial statements reflect only the Company’s proportionate interest of these joint operations and the proportionate share of the relevant revenue and related costs.

Cash

Cash consists of deposits held in banks. The Company places its cash with institutions of high-credit worthiness.

Royalties and production tax

Oil and gas royalties are paid, pursuant to lease agreements, to the owners of the mineral rights, which can include private citizens, state governments or the federal government. Royalties can also be granted out of the lessee’s interest in the lease (often referred to as an overriding royalty). Royalties are recorded at the time the product is sold and are calculated in accordance with the applicable lease agreements. Production taxes are recorded at the time transfer of title occurs. Production taxes are calculated in accordance with the applicable regulations, are paid to the state government and are a fixed percentage of revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas properties

Pre-exploration expenditures

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

Exploration and evaluation expenditures

Once a legal right to explore has been obtained, costs directly associated with an exploration well are capitalized as exploration and evaluation assets ("E&E"). These assets include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs including drilling costs directly attributable to an identifiable well and directly attributable general and administrative costs. These costs are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying value exceeds the recoverable amount.

The technical and commercial viability of extracting petroleum resources is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to these reserves are tested for impairment and reclassified to oil and gas properties.

Development and production costs

Oil and gas development and production assets are measured at cost less accumulated depletion, and accumulated impairment losses. Oil and gas properties include costs related to drilling development wells, well completions, infrastructure construction, successful E&E projects and estimated decommissioning liabilities.

The costs of planned major overhaul, turnaround activities and equipment replacement that maintain oil and gas properties and benefit future years of operations are capitalized. Recurring planned maintenance activities performed on shorter intervals are expensed as operating costs. Replacements outside of a major overhaul or turnaround are capitalized when it is probable that future economic benefits will flow to the Company and the associated carrying amount of the replaced asset (or part of a replaced asset) is derecognized.

Development and production assets are grouped into cash generating units ("CGU") for impairment testing and depletion calculations.

Gains and losses on disposal of an item of oil and gas properties, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of oil and gas properties and are recognized in the statement of income (loss) and comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent costs

Costs incurred subsequent to commercial production including the costs of replacement are recognized in the consolidated statements of income (loss) and comprehensive income (loss) as incurred unless they increase the future economic benefits in the assets to which they relate.

Depletion

Depletion of oil and gas properties is determined using the unit-of-production method based on production volumes in relation to the total estimated proved and probable reserves as determined on an annual basis in compliance with NI 51-101 – *Standards of Disclosure of Oil and Gas Activities,* taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

Proved 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 90% degree of certainty to be recoverable in future years from known proved and probable reservoirs and which are considered commercially producible.

Impairment

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets, as oil and gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production assets are grouped into a CGU for impairment testing. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset group is considered impaired and it is written down to its recoverable amount.

Fair value less costs of disposal is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs of disposal can be determined by using an observable market or by using discounted future net cash flows.

Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments. Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Classification and measurement of financial assets
The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. Financial instruments under this classification include cash, accounts receivable, accounts payable and accrued liabilities, promissory notes and long-term debt;

- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or

- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in the consolidated statements of income (loss) and comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets
The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

Classification and measurement of financial liabilities
A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in statements of income (loss) and comprehensive income (loss). Any gain or loss on derecognition is also recognized in statements of income (loss) and comprehensive income (loss).

Derivative Financial Instruments
Derivative financial instruments are used to manage economic exposure to market risks relating to commodity prices. Policies and procedures are in place with respect to required documentation and approvals for the use of derivative financial instruments. Where specific financial instruments are executed, the Company assesses, both at the time of purchase and on an ongoing basis, whether the financial instrument used in the particular transaction is effective in offsetting changes in fair values or cash flows of the transaction.

Risk management assets and liabilities are derivative financial instruments classified as measured at FVTPL unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded in the consolidated statements of financial position as either an asset or liability with changes in fair value recognized in the consolidated statements of income (loss) and comprehensive income (loss) as a gain or loss on risk management. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds.

Share based compensation

Share based compensation to non-employees are measured at fair value of goods and services received or the fair value of the equity instrument issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Share based compensation to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. The corresponding amount is recorded in contributed surplus.

The fair value of options are determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest are reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts are transferred to share capital.

Related party transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties subject to common control are also considered to be related. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations and it is probable that there will be a requirement to settle. The provision is measured at the best estimate of the present value of the amount required to settle the obligation using a pre-tax rate reflecting current market assessment, the time value of money and the risk specific to the obligation. Future increases resulting from the passing of time will be recognized as an accretion expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Decommissioning liabilities

Decommissioning liabilities include those legal or constructive obligations to retire assets such as well sites, gathering systems, natural gas processing plants and access roads at the end of their productive lives. The obligation is recognized when a property is acquired or a well is completed. The amount recognized in the statements of consolidated financial position is the present value of estimated future expenditures required to settle an obligation using a risk-free rate. A corresponding asset equal to the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning cost and related long-lived asset. The amount capitalized is depleted with oil and gas properties based on the unit of production method. Increases in the decommissioning liabilities resulting from the passage of time are recognized as finance expense in the consolidated statements of income (loss) and comprehensive income (loss). Actual costs incurred to retire assets are charged against the decommissioning liability. Differences between the actual costs incurred and the liability accrued are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when reclamation of the area is completed.

Earnings per share

Earnings per share is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share assumes any outstanding options and warrants are exercised and class B common shares are converted into class A common shares and proceeds are used to repurchase common shares at the average market price of the shares for the year. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

Income taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the consolidated statements of income (loss) and comprehensive income (loss) except to the extent that it relates to a business combination, or to items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

Significant accounting estimates, judgments and assumptions

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. Certain estimates by their nature are uncertain. The impacts of such estimates could be pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following accounting policies are subject to such judgements and because of the uncertainty associated with the estimation process they could have the most significant impact on the reported results and financial position:

Reserves

The estimate of oil and gas reserves is integral to the calculation of the amount of depletion to be charged to the consolidated statements of income (loss) and comprehensive income (loss) and is also a key determinant in assessing whether the carrying value of any of the Company's oil and gas properties have been impaired. Changes in reported reserves can impact asset carrying values. The Company's reserves are evaluated and reported on by independent reserve engineers in accordance with National Instrument 51-101 – *Standards of Disclosure of Oil and Gas Activities*. Reserve estimation is based on a variety of factors which are subject to significant judgement and interpretation.

Decommissioning liability

At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment regarding the abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and discount rates to determine the present value of these cash flows.

Fair value of related party promissory note

Management assesses the coupon interest rate on related party loans payable compared to the estimated interest rate if the loan payable was received from a third party. The third party interest rate is based on various assumptions and is an estimate that is updated by management on an individual loan payable basis. Changes in the assumptions may materially affect the initial fair value of the related party loan payable and subsequent interest payments made to reflect the loan payable at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates, judgments and assumptions (continued)

Oil and gas properties

The Company assesses at each reporting date whether or not there is an indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Company estimates the recoverable amount determined based on the higher of value-in-use and fair value less costs to sell. These calculations are based on a number of factors which are subject to estimates and assumptions.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable earnings.

Share-based compensation

Compensation costs accrued for under the Company's Stock Option plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of Pinedale’s shares.

Adoption of new and revised standards

IFRS 16 “Leases”

IFRS 16, which supersedes IAS 17 – Leases, specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, has also been applied. The Company does not have leases that will be recognized on its balance sheet at January 1, 2019. The impact of IFRS 16 on its opening balance sheet at January 1, 2019 is expected to be immaterial.

IFRS 9 “Financial instruments”

On January 1, 2018, Pinedale adopted IFRS 9 using the retrospective method. IFRS 9 includes a new classification and measurement approach for financial instruments and a forward-looking expected credit loss model for impairment.

The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The adoption of this approach did not result in a material impact to the Pinedale’s consolidated financial statements due to the high credit quality of Pinedale's customers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

IFRS 15 "Revenue from contracts with customers"

On January 1, 2018, Pinedale adopted IFRS 15. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Pinedale's revenue relates to the sale of natural gas and natural gas liquids to customers at specified delivery points at benchmark prices. Pinedale adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. As a result of applying the requirements of IFRS 15, no changes or adjustments were required to retained earnings at the date of adoption.

4. REVERSE ACQUISITION

On February 28, 2017, 0970831 BC Ltd. ("Pinedale") entered into the Share Exchange Agreement with Outrider Energy Corp. ("Outrider") through which Outrider will acquire all of the issued and outstanding Pinedale Shares in consideration for an aggregate amount of 4,229,096 Class A shares and 95,770,904 Class B shares of Outrider at a deemed price of $0.195 per share to the Pinedale shareholders (the "Acquisition"). This Acquisition was completed on June 1, 2017.

In connection with the Acquisition, the Company also completed a non-brokered private placement financing involving the issuance of 5,000,000 units at a price of $0.195 per unit for gross proceeds of $975,000. Each unit will consist of one Class A common share and one warrant. Each warrant is exercisable into one Outrider share at a price of $0.26 per share and expires on June 26, 2022.

In accordance with IFRS 3, Business Combinations, the substance of the Acquisition was a reverse acquisition of a non-operating company. The transaction does not constitute a business combination since Outrider does not meet the definition of a business under the standard. As a result, under IFRS, the Transaction is accounted for as a capital transaction with Pinedale being identified as the acquirer and the transaction being measured at the fair value of the equity consideration issued to Outrider. The comparative figures included in these consolidated financial statements are those of Pinedale.

IFRS 2, *Share-based Payments*, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Since Pinedale shareholders have been issued shares with a fair value in excess of the net assets received, IFRS 2 dictates that the difference is recognized in the statements of income (loss) and comprehensive income (loss) as a reverse acquisition cost.

The fair value of the consideration in the Acquisition is determined by reference to the completed private placement at $0.195 per unit. Accordingly, the value of the share capital (2,472,114 shares) owned by the former shareholders of Outrider at the time of the transaction was $482,062.

[Expressed in Canadian dollars]

4. REVERSE ACQUISITION (continued)

Purchase Price		
# shares held by former shareholders of Outrider		2,472,114
Share price	$	0.195
Total Consideration	$	482,062
Fair value of net assets of Outrider prior to Acquisition		
Cash	$	71,628
Other receivable		11,015
Payables		(45,622)
Net assets	$	37,021
Subtotal		(445,041)
Transaction cost		(74,687)
Reverse Acquisition Cost	**$**	**(519,728)**

5. RECEIVABLES AND PREPAIDS

The receivables and prepaids balance consists of the following:

	December 31, 2018	**December 31, 2017**
Receivables	$1,345,472	$1,172,747
Prepaid expenses	34,609	32,430
	$1,380,081	**$1,205,177**

As at December 31, 2018, all of the Company's receivables were outstanding for less than 90 days. There was no significant expected credit losses on the Company's trade accounts receivable at December 31, 2018.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance comprise of the following:

	December 31, 2018	**December 31, 2017**
Accounts payable	$1,402,824	$2,396,378
Accrued liabilities	150,168	201,844
	$1,552,992	**$2,598,222**

[Expressed in Canadian dollars]

7. OIL AND GAS PROPERTIES

Sublette County, State of Wyoming, U.S.A.

The Company acquired seventeen leases with an undivided working interest ranging from 7.94% to 21.25% covering approximately 1,680 net acres located in Sublette County in the State of Wyoming. The Company has agreements with joint working interest owners in the leases requiring it to participate in the development of oil and natural gas wells associated with leases. Failure by the Company to pay its share of a proposed capital program could result in a significant revenue penalty related to the subject wells. If a proposed capital program results in the continuation of a lease that would otherwise expire and the Company fails to pay its proportionate share of these costs, the Company shall be obligated to assign its undivided interest in the lease to the operator, free of charge and without any consideration or refund of the purchase price. Cumulative expenditures related to the Sublette County interests consist of the following:

Cost

Balance, December 31, 2016	$13,594,531
Additions	6,791,541
Change in decommissioning liability	197,773
Reporting currency translation adjustment	(1,113,576)
Balance, December 31, 2017	$19,470,269
Additions	8,570,649
Change in decommissioning liability	170,697
Reporting currency translation adjustment	1,709,907
Balance, December 31, 2018	**$29,921,522**

Accumulated depletion and impairment

Balance, December 31, 2016	$349,362
Depletion	444,889
Reporting currency translation adjustment	(54,113)
Balance, December 31, 2017	$740,138
Depletion	1,763,451
Impairment	14,785,130
Reporting currency translation adjustment	939,017
Balance, December 31, 2018	**$18,227,736**

Carrying amount

Balance, December 31, 2017	$18,730,131
Balance, December 31, 2018	**$11,693,786**

[Expressed in Canadian dollars]

7. OIL AND GAS PROPERTIES (continued)

At December 31, 2018, the recoverable amount of the Company's assets was estimated to be $11,693,786. In 2018, due to the decline of the forecasted commodity prices and economic viability of the estimated Company reserves, the Company recorded an impairment totaling $14,785,130.

The recoverable amount was determined by using the Company's forecasted reserves volumes and values in the 2018 year-end reserve report prepared by an independent reserve evaluator. The recoverable amount is the fair value less costs of disposal (level 3 inputs) which was calculated using a discounted cash flow approach based on the proved plus probable reserves at a discount rate of 10%.

The following table outlines the forecast benchmark commodity prices before adjustments, along with escalation parameters used in the impairment calculation of the oil and gas properties as at December 31, 2018:

December 31	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 (1)**
NGL/COND US$/bbl	47.89	49.95	51.21	52.22	53.14	53.77
NAT GAS US$/Mcf	2.588	2.367	2.288	2.317	2.363	2.445

(1) Then escalated 3 percent on January 1 of each year through December 31, 2030, and held constant thereafter

Changes in any key judgments, such as a revision in reserves, changes in forecast benchmark commodity prices, capital or operating costs would impact the recoverable amounts of assets and any recoveries or impairment charges would affect net income. The following sensitivities show the resulting impact on income before tax of the changes in discount rate and forecast benchmark commodity price estimates at December 31, 2018, with all other variables held constant:

Discount rate	**0%**	**10%**	**20%**
Recoverable amount	$30,428,617	$11,693,786	$6,854,423
Impairment	Nil	$14,785,130	$19,381,649

[Expressed in Canadian dollars]

8. DECOMMISSIONING LIABILITY

The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligation is approximately $1,035,802 (2017 - $725,984). The payments to settle this obligation are expected to occur from 2039 to 2065. An inflation factor of 2.00% (2017 – 2.00%) has been applied to the estimated decommissioning liability as at December 31, 2018. The Company's risk-free rate used to calculate the fair value of the decommissioning liability is 2.95% (2017 – 2.95%) at December 31, 2018.

Balance, December 31, 2016	**$383,694**
Obligations acquired due to development activity	197,773
Accretion	3,391
Change in estimate	(14,146)
Reporting currency translation adjustment	(24,838)
Balance, December 31, 2017	**$545,874**
Obligations acquired due to development activity	170,697
Accretion	20,357
Change in estimate	(32,233)
Reporting currency translation adjustment	47,136
Balance, December 31, 2018	**$751,831**

9. PROMISSORY NOTE

On September 1, 2017, the Company executed a promissory note to secure a loan advance of $4,000,000. The promissory note payable is secured against the assets of the Company, bears interest at a rate of 10.0% per annum which can be repaid at any time without penalty with a maturity date of September 1, 2019. The loan was initially recorded at the fair market value of $3,629,490 using the discount rate of 15%. As such, a discount of $370,510, net of deferred tax of $96,333, was allocated to contributed surplus.

During the year ended December 31, 2018, the Company recognized $400,000 and $156,721 of interest expense and accretion, respectively. As at December 31, 2018, the Company had $3,867,810 outstanding on the note, in which $33,973 (2017 - $33,973) of interest payable was included in accounts payable and accrued liabilities.

10. LONG-TERM DEBT

On June 30, 2015, the Company obtained a US$25 million revolving credit facility. The initial commitment allows for revolving loan advances to the Company to a maximum of US$5 million. The facility is secured by a fixed and floating charges on the assets of the Company. The amount available under this facility ("Collateral Borrowing Base") is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the lending institution's forecast commodity prices, the current economic environment and other factors. During the year, the current Collateral Borrowing Base was increased to US$6.0 million. These advances bear interest at Wall Street Journal Base Rate plus fifty basis points (0.50%).

At December 31, 2018, the Company had a balance due of $7,366,680 (US$5,400,000) under its existing credit facility (2017 - $3,638,050). Pursuant to the terms of the facility agreement, the Company is required to maintain a ratio of funded debt to EBITDAX less than 4:1 at the end of each fiscal quarter calculated on a rolling twelve-month basis. As at December 31, 2018 and 2017 the Company was in compliance with this covenant.

11. SHARE CAPITAL

Authorized

The Company is authorized to issue:

- An unlimited number of voting Class A common shares without par value; and
- An unlimited number of voting Class B common shares without par value.

Issued and outstanding

On June 1, 2017, as part of the acquisition, the Company issued a total of 4,229,096 Class A common shares and 95,770,904 Class B common shares of the Company to the shareholders of 0970831 BC Ltd. The Class B common shares are non-voting and each Class B common share, on a pro rata basis, can be automatically converted into one Class A common share if the Company determines that upon such conversion the Company would have a sufficient percentage of Class A common shares in the "Public Float" (as that term is defined and such requirement is set out in the policies of the TSX Venture Exchange ("TSXV").

On June 26, 2017, the Company closed a non-brokered private placement for gross proceeds of $975,000 as part of the acquisition. The private placement consisted of 5,000,000 units at a price of $0.195 per unit, each unit is comprised of one Class A common share in the capital of the Company and one transferable share purchase warrant. Each warrant is exercisable into one additional Class A common share at an exercise price of $0.26 per share. These warrants expire on June 26, 2022.

On October 26, 2017, the Company closed a non-brokered private placement for gross proceeds of $1,500,000. The private placement consisted of 5,000,000 units at a price of $0.30 per unit, each unit is comprised of one Class A common share of the Company and one transferable share purchase warrant. Each warrant is exercisable into one additional Class A common share at an exercise price of $0.36 per share. These warrants expire on October 26, 2022.

During the year ended December 31, 2018, 94,331,467 Class B shares were converted into class A shares. As at December 31, 2018, there were no Class B shares outstanding.

Stock option plan

The Company has a 20% fixed stock option plan under which stock options to purchase common shares of the Company may be granted to directors, officers and consultants.

During the year ended December 31, 2017, the Company granted 1,314,064 options with an exercise price of $0.26 and an expiry date of June 26, 2022. No stock options were granted in 2018.

In connection with this grant the Company recorded a share-based compensation expense of $91,120 during the year ended December 31, 2018 (2017 – $65,294). As at December 31, 2018, the Company's stock options had a weighted average exercise price and weighted average remaining life of $0.26 and 3.49 years, respectively.

[Expressed in Canadian dollars]

11. SHARE CAPITAL (continued)

The following weighted average assumptions were used for the Black-Scholes valuation of share options granted during the year ended December 31, 2017:

Risk-free interest rate	0.89%
Expected life of options (in years)	5.00
Annualized volatility	75%
Share price	$ 0.26
Fair value of options granted	$ 0.26
Forfeiture rate	-
Dividend rate	-

The following tables summarize information about changes in Stock Options outstanding at December 31, 2018:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2016	-	-
Granted	1,314,064	$ 0.26
Balance at December 31, 2017	1,314,064	$ 0.26
Granted	-	-
Exercised	-	-
Balance at December 31, 2018	1,314,064	$ 0.26

	Stock Options Outstanding			Stock Options Exercisable		
Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
$0.26	1,314,064	3.49	$ 0.26	438,021	3.49	$0.26
	1,314,064	**3.49**	**$ 0.26**	**438,021**	**3.49**	**$0.26**

No stock options were exercised during the year ended December 31, 2018.

[Expressed in Canadian dollars]

11. SHARE CAPITAL (continued)

Warrants

On April 30, 2016, the Company issued 999,999 warrants as part of a non-brokered private placement. These warrants have an exercise price of $0.26 and expire on April 29, 2021.

On June 26, 2017, the Company issued 5,000,000 warrants as part of a non-brokered private placement. These warrants have an exercise price of $0.26 and expire on June 26, 2022.

On October 26, 2017, the Company issued 5,000,000 warrants as part of a non-brokered private placement. These warrants have an exercise price of $0.36 and expire on October 26, 2022.

On July 3, 2018, 1,000,000 warrants expired.

As at December 31, 2018, the Company has a total of 10,999,999 warrants outstanding and exercisable in which the weighted average exercise price and the weighted average remaining life was $0.30 and 3.53 years, respectively.

12. RELATED PARTY TRANSACTIONS

Transactions with related parties and key management personnel were in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

	December 31, 2018	December 31, 2017
Interest on promissory notes	$400,000	$127,123
Consulting fees	$139,000	$102,000
Management fees	$28,000	$28,000
Directors fees	$4,000	-
Share based compensation	$60,139	$43,529

The promissory note described in Note 9 is payable to two directors of the Company. The promissory note payable is at agreed upon terms. During the year ended December 31, 2018, the Company paid $400,000 (2017 – $127,123) in interest on the promissory note.

During the year ended December 31, 2018, the Company paid $67,000 (2017 – $63,000) to an officer of the Company. During the same period, the Company paid $72,000 in consulting fees to a different officer of the Company (2017 – $39,000).

During the year ended December 31, 2018, the Company paid $28,000 (2017 – $28,000) in fees to a private company controlled by a director of the Company. This fee is inclusive of administrative, finance and accounting fees, as well as certain office expenses.

As at December 31, 2018, accounts payable and accrued liabilities included $47,693 (2017 - $46,890) payable to these related parties.

[Expressed in Canadian dollars]

13. INCOME TAX

Income tax expense

The following table reconciles the expected income tax expense at the Canadian statutory income tax rate to the amounts recognized in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2018 and 2017.

	2018	**2017**
	$	$
Net income (loss) before taxes	**(13,398,321)**	1,096,585
Current statutory income tax rate	**27%**	26%
Expected income tax expense (recovery)	**(3,617,547)**	285,112
Non-deductible items	**124,052**	152,086
Change in estimates	**(18,326)**	(31,466)
Change in tax rate	**-**	(1,078,602)
Functional currency adjustments	**-**	281
Foreign tax rate difference	**786,836**	172,812
Change in deferred tax asset not recognized	**1,068,332**	48,628
Income tax expense (recovery)	**(1,656,653)**	(451,149)
Current tax expense	**40,547**	16,068
Deferred tax expense (recovery)	**(1,697,200)**	(467,217)
	(1,656,653)	(451,149)

The statutory tax rate increased from 26% to 27% due to an increase in the BC corporate tax rate on January 1, 2018.

[Expressed in Canadian dollars]

13. INCOME TAX (continued)

Deferred tax liabilities

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Details of deferred tax liabilities are as follows:

	2018 $	**2017** $
USA		
Oil and gas properties	**-**	(1,792,117)
Decommissioning liability	**-**	114,634
Net operating losses	**-**	5,079
Other	**-**	(23,661)
Net deferred tax liability	**-**	(1,696,065)
Canada		
Non-capital losses	**-**	83,447
Promissory note	**(44,864)**	(87,179)
Other	**2,127**	(518)
Net deferred tax liability	**(42,737)**	(4,250)

The unrecognized deductible temporary differences are as follows:

	2018 $	**2017** $
USA		
Net operating losses	**1,811,589**	-
Other receivables	**111,438**	-
Decommissioning liability	**751,831**	-
Oil and gas properties	**2,927,388**	-
Unrecognized deductible temporary differences	**5,602,246**	-

US net operating losses totaling $806,991 expire from 2034 to 2037. US net operating losses of approximately $1,004,598 have no expiry date.

Canada		
Capital losses	**9,972**	9,972
Unrecognized deductible temporary differences	**9,972**	9,972

As at December 31, 2018, the Company has not recognized a deferred tax asset in respect of net capital loss carryforwards of approximately $9,972 (2017 – $9,972) which may be carried forward indefinitely to apply against taxable capital gains in future years for Canadian income tax purposes, subject to the final determination by taxation authorities. The presentation of the prior year income tax note has been updated to conform with the current year presentation.

14. CAPITAL MANAGEMENT

It is management's objective to safeguard its capital in order that it will be able to continue as a going concern in the best interest of all stakeholders. The capital of the Company consists of cash and the items included in the consolidated shareholders' equity, which is consistent with the prior year.

The Company currently has limited sources of revenues. As such, the Company is dependent upon external financings to fund activities. In order to finance future projects and to pay for administrative activities, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management practices on an ongoing basis and believes that their approach, given the relative size of the Company, is reasonable. There has been no changes to the Company capital management process in the past year.

15. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The main types of risks are credit risk, liquidity risk and market risk. These risks arise throughout the normal course of operations and all transactions are undertaken as a going concern. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk primarily associated with cash and receivables. The carrying amounts of these assets included on the consolidated statement of financial position represent the maximum credit exposure. The Company limits exposure to credit risk by maintaining its cash with institutions of high creditworthiness.

The Company's investment policy is to hold cash in interest-bearing bank accounts.

Receivables are comprised almost entirely of amounts receivable from marketing companies, pipeline operators and midstream companies which purchase the petroleum and natural gas produced by the properties. The accounts receivables are subject to the standard risk inherent in the industry in which those companies operate and are all current at year end.

The maximum credit risk exposure associated with cash and receivables is the total carrying value.

Foreign exchange risk

Foreign exchange risk arises from the changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. For the Company, it is the exchange rate between the Canadian and US dollar which presents the most risk as the Company's operating cash flows and a significant portion of the Company's debt are denominated in US dollars. As such, an increase in the value of the Canadian dollar as compared to the US dollar will not only reduce the net cash flow from the oil and gas operations but will reduce the Canadian dollar equivalent of the Company's debt and reduce the Canadian dollar equivalent cost of acquisitions. A $0.01 increase (decrease) in the Canadian and US dollar exchange rate would have increased (decreased) other comprehensive income (loss) by approximately $23,300 for the year ended December 31, 2018 (2017 – $17,700).

[Expressed in Canadian dollars]

15. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash. The Company manages its capital in order to meet short term business requirements, after taking into account cash flows, capital expenditures and cash holdings. The Company believes that these sources should be sufficient to cover the likely short term requirements. In the long term, the Company may have to issue additional equity to ensure there is cash available for its programs. All current financial liabilities, being accounts payable and accrued liabilities, are payable within a 90 day period and are to be funded from cash. The promissory note and debt are payable within twelve month from the year ended.

Market risk

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's revenue and ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian and United States demand, but also by world events that dictate the levels of supply and demand. A $0.10 increase (decrease) in the NYMEX natural gas price would have increased (decreased) after tax comprehensive net income (loss) by approximately $165,000 for the year ended December 31, 2018 (2017 - $88,100).

The Company is party to certain financial contracts in order to manage natural gas commodity price risks. The natural gas reference prices of the commodity contracts are referenced to natural gas market index prices. As at December 31, 2018, the unrealized gain on outstanding financial contracts was $2,341 (December 31, 2017: $71,869). The realized gain (loss) on settlement of financial contracts during the year was $180,300 loss (December 31, 2017: $37,999 gain). The unrealized and realized gain (loss) are recorded with the Oil and gas sales on the statements of income (loss) and comprehensive income (loss).

A summary of contracts outstanding in respect of hedging is as follows:

Natural Gas Period Hedged	Derivative Product Type	Quantity (MMBtu)	Price (USD/MMBtu)
January 1, 2019 to December 31, 2019	Costless Collar (1)	44,000	$2.80 -$3.35

(1) NYMEX Henry Hub reference price

Interest rate risk

The Company is exposed to interest rate risk related to interest expense on its revolving credit facility due to the floating interest rate charged on advances. For the year ended December 31, 2018, if interest rates had been 25 basis points (0.25%) higher with all other variables held constant, after tax comprehensive net income (loss) for the year would have been impacted by $8,857 (2017 – $3,200) lower.

[Expressed in Canadian dollars]

15. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT (continued)

Fair value

The carrying value of the Company's cash, other receivables and accounts payable and accrued liabilities and debt approximate fair value due to their immediate and short-term nature.

The Company classifies its fair value measurements with the following fair value hierarchy:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable imports other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable imports which are supported by little or no market activity.

There has been no change between levels during the year. The Company’s risk management contracts are classified as Level 2.

16. SEGMENT INFORMATION

The Company operates its business as a single operating segment being the development of proven and unproven reserves in the United States.

The breakdown by geographic area as at December 31, 2018 is as follows:

	Canada	**United States**	**Total**
Current assets	$229,351	$1,403,019	$1,632,370
Non-current assets	-	11,693,786	11,693,786
Total assets	$229,351	$13,096,805	$13,326,156
Total liabilities	$4,019,261	$9,574,255	$13,593,513
Revenues	$ -	$7,530,769	$7,530,769
Operating expenses	-	4,700,545	4,700,545
	-	2,830,224	2,830,224
General and administrative expenses	(943,722)	(499,693)	(1,443,415)
Other items	-	(14,785,130)	(14,785,130)
Net loss before taxes	(943,722)	(12,454,599)	(13,398,321)
Income tax expense	(40,547)	-	(40,547)
Income tax recovery	(38,488)	1,735,688	1,697,200
Net loss	$(1,022,757)	$(10,718,911)	$(11,741,668)

[Expressed in Canadian dollars]

16. SEGMENT INFORMATION (continued)

The breakdown by geographic area as at December 31, 2017 is as follows:

	Canada	United States	Total
Current assets	$1,134,686	$3,027,580	$4,162,266
Non-current assets	-	18,730,131	18,730,131
Total assets	$1,134,686	$21,757,711	$22,892,397
Total liabilities	$3,805,212	$8,370,548	$12,175,760
Revenues	$ -	$4,297,064	$4,297,064
Operating expenses	-	1,939,390	1,939,390
	-	2,357,674	2,357,674
General and administrative expenses	(589,843)	(370,464)	(960,307)
Other items	-	(300,782)	(300,782)
Net income (loss) before taxes	(589,843)	1,686,428	1,096,585
Income tax expense	(16,077)	(608,714)	(624,791)
Income tax recovery	-	1,075,941	1,075,941
Net income (loss)	$(605,920)	$2,153,655	$1,547,735

The Company has two (2017 – three) customers making up more than 10% of total sales with each making up 83.7%, and 12.7% (2017 - 74.5%, 14.8% and 10.7%) of total sales.