

Financial Statements of

**WILTON RESOURCES INC.**

As at and for the years ended December 31, 2016 and 2015



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Wilton Resources Inc.

We have audited the accompanying financial statements of Wilton Resources Inc., which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the statements of operations and comprehensive loss, changes in shareholders' deficit 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 Wilton Resources Inc. as at December 31, 2016 and December 31, 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 2 in the financial statements which indicates Wilton Resources Inc. has a significant working capital deficiency as at December 31, 2016 and requires additional capital to fund the working capital deficit, ongoing operations and its ongoing acquisition, exploration and development activities. These conditions, along with other matters as set forth in Note 2 in the financial statements, indicated the existence of a materiality uncertainty that casts significant doubt about Wilton Resources Inc.'s ability to continue as a going concern.

*KPMG LLP*

Chartered Professional Accountants

April 28, 2017  
Calgary, Canada

**WILTON RESOURCES INC.**  
**Statements of Financial Position**  
**As at December 31, 2016 and 2015**

(Canadian Dollars)

		2016	2015
<b>Assets</b>			
Current assets			
	Cash	\$ 316,370	\$ 205,439
	Accounts receivable	89,218	72,055
		<u>405,588</u>	<u>277,494</u>
	Property and equipment	7 26,469	32,457
	<b>Total assets</b>	<u>\$ 432,057</u>	<u>\$ 309,951</u>
<b>Liabilities</b>			
Current liabilities			
	Accounts payable and accrued liabilities	\$ 1,003,265	\$ 868,330
		<u>1,003,265</u>	<u>868,330</u>
	Decommissioning obligation	9 44,125	49,543
	<b>Total liabilities</b>	<u>1,047,390</u>	<u>917,873</u>
<b>Shareholders' Deficit</b>			
	Share capital	10 7,033,043	6,162,174
	Warrants	12 2,022,477	830,564
	Contributed surplus	2,870,008	1,700,308
	Deficit	<u>(12,540,861)</u>	<u>(9,300,968)</u>
		<u>(615,333)</u>	<u>(607,922)</u>
	<b>Total Liabilities and Shareholders' Deficit</b>	<u>\$ 432,057</u>	<u>\$ 309,951</u>

Going concern 2

Subsequent events 18

See accompanying notes to the financial statements.

These financial statements were approved by the Directors of the Corporation on April 28, 2017.

(signed) "Richard Anderson" , Director

(signed) "Allen Emes" , Director

**WILTON RESOURCES INC.**  
**Statements of Operations and Comprehensive Loss**  
**For the years ended December 31, 2016 and 2015**

	Note	2016	2015
<b>Expenses</b>			
General and administrative	15	\$ 1,781,623	\$ 1,139,400
Loss on conversion of debentures	8	-	731,000
Interest on debentures	8	-	138,844
Impairment of property and equipment	7	-	116,118
Production		-	2,688
Accretion of decommissioning obligation	9	570	1,479
Foreign exchange loss		-	538
Stock-based compensation	11	1,169,700	-
		\$ (2,951,893)	\$ (2,130,067)
<b>Net loss and comprehensive loss</b>		<b>\$ (2,951,893)</b>	<b>\$ (2,130,067)</b>
<b>Loss per share - basic and diluted</b>	13	<b>\$ (0.07)</b>	<b>\$ (0.07)</b>

See accompanying notes to the financial statements.

**WILTON RESOURCES INC.**  
**Statements of Cash Flows**  
**For the years ended December 31,**

	<b>2016</b>	2015
<b>Cash provided by (used in):</b>		
<b>Cash flows from operating activities</b>		
Net loss	\$ (2,951,893)	\$ (2,130,067)
Items not affecting cash:		
Stock-based compensation	1,169,700	-
Loss on conversion of debentures	-	731,000
Impairment of property and equipment	-	116,118
Accretion of finance costs of debentures	-	78,074
Accretion	570	1,479
Change in non-cash working capital	117,772	109,436
<b>Net cash used in operating activities</b>	<b>(1,663,851)</b>	<b>(1,093,960)</b>
<b>Cash flows from financing activities</b>		
Exercise of warrants	49,701	-
Proceeds on issuance of units (net of issue costs)	1,725,081	1,201,453
<b>Net cash provided by financing activities</b>	<b>1,774,782</b>	<b>1,201,453</b>
<b>Change in cash position</b>	<b>110,931</b>	<b>107,493</b>
<b>Cash, beginning of year</b>	<b>205,439</b>	<b>97,946</b>
<b>Cash, end of year</b>	<b>\$ 316,370</b>	<b>\$ 205,439</b>
Interest paid	\$ -	\$ 60,770

See accompanying notes to the financial statements.

**WILTON RESOURCES INC.**  
**Statements of Changes in Shareholders' Deficit**  
**For the Years ended December 31, 2016 and 2015**

	Share capital	Contributed surplus	Debenture equity component	Warrants/agents' options	Deficit	Total
<b>Balance at January 1, 2015</b>	\$ 3,772,352	\$ 1,634,056	\$ 35,251	\$ 257,803	\$ (7,098,901)	\$ (1,399,439)
Issue of common shares	1,365,440	-	-	-	-	1,365,440
Warrants issued in financing (note 12)	-	-	-	567,013	-	567,013
Conversion of debenture payable (note 8)	1,024,382	-	(35,251)	-	-	989,131
Value attributed to warrants expiration extension (note 12)	-	-	-	72,000	(72,000)	-
Value attributed to expired warrants (note 12)	-	66,252	-	(66,252)	-	-
Net loss and comprehensive loss	-	-	-	-	(2,130,067)	(2,130,067)
<b>Balance at December 31, 2015</b>	<b>\$ 6,162,174</b>	<b>\$ 1,700,308</b>	<b>\$ -</b>	<b>\$ 830,564</b>	<b>\$ (9,300,968)</b>	<b>\$ (607,922)</b>
Issue of common shares, net	785,800	-	-	-	-	785,800
Warrants issued on financing (notes 10 and 12)	-	-	-	939,281	-	939,281
Share-based compensation (note 11)	-	1,169,700	-	-	-	1,169,700
Value attributed to warrant expiration extension (note 12)	-	-	-	288,000	(288,000)	-
Warrants exercised (note 12)	85,069	-	-	(35,368)	-	49,701
Net loss and comprehensive loss	-	-	-	-	(2,951,893)	(2,951,893)
<b>Balance at December 31, 2016</b>	<b>\$ 7,033,043</b>	<b>\$ 2,870,008</b>	<b>\$ -</b>	<b>\$ 2,022,477</b>	<b>\$ (12,540,861)</b>	<b>\$ (615,333)</b>

See accompanying notes to the financial statements.

**WILTON RESOURCES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2016 and 2015**

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**1. General business description**

Wilton Resources Inc. (“Wilton” or the “Corporation”) was incorporated pursuant to the Business Corporations Act (Alberta). Wilton is an oil and gas exploration and development company with operations in Canada. The Corporation is pursuing oil and gas properties in various international locations including the Middle East and Africa.

The address of the Corporation is 1900, 520-3rd Ave SW, Calgary, Alberta, T2P 0R3.

**2. Going concern**

As at December 31, 2016, the Corporation has a significant working capital deficiency of \$597,677 (2015 - \$590,836) and has no production revenue from its Canadian oil and gas property as the well was shut-in since October 2013 due to uneconomical natural gas prices and decreasing production volumes. In order to settle its existing liabilities and continue operations, including its ongoing oil and natural gas acquisition, exploration and development activities, Wilton will require additional financing. The amount of capital required cannot be quantified until additional transactions are identified and completed. Failure to obtain such financing on a timely basis could cause Wilton to forfeit its interest in its property, to miss certain acquisition opportunities and/or to reduce or terminate its operations. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Wilton. Moreover, future activities may require Wilton to alter its capitalization significantly. The inability of Wilton to access sufficient capital for its operations could have a material adverse effect on Wilton’s financial condition, results of operations or prospects.

These conditions create a material uncertainty which casts significant doubt on the Corporation’s ability to continue as a going concern.

The Corporation's access to capital will impact its ability to complete exploration and development activities, acquire international concessions and to ultimately achieve profitable operations. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Corporation 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.

**3. Basis of presentation**

**3.1 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.

**WILTON RESOURCES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2016 and 2015**

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These financial statements were authorized for issue by the Board of Directors of the Corporation on April 28, 2017.

3.2 Functional and presentation currency

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

3.3 Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain instruments as outlined in the accounting policies, which are measured at fair value.

3.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may vary from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity as at December 31, 2016:

*Estimating oil and gas reserves*

The Corporation engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the Corporation's oil and gas reserves annually. Reserves form the basis for the calculation of depletion charges and assessment of impairment of oil and gas assets. Reserves are estimated using the reserve definitions and guidelines prescribed by National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

**WILTON RESOURCES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2016 and 2015**

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Proved plus probable reserves are defined as the “best estimate” of quantities of oil, natural gas and related substances estimated to be commercially recoverable from known accumulations, from a given date forward, based on drilling, geological, geophysical and engineering data, the use of established technology and specified economic conditions. It is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. The estimates are made using available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes and reservoir performance or a change in the Corporation’s plans with respect to future development or operating practices.

*Determination of cash generating units (“CGUs”)*

The recoverability of development and production assets is assessed at the CGU level. Determination of what constitutes a CGU is subject to management’s judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU’s carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

*Decommissioning provision*

The Corporation estimates obligations under environmental regulations in respect of decommissioning and its restoration. These obligations are determined based on the expected present value of expenses required in the process of plugging and abandoning wells, dismantling of wellheads, production and transportation facilities and restoration of producing areas in accordance with relevant legislation, discounted from the date when expenses are expected to be incurred. Most of the abandonment of future expenses, estimated logistics of performing abandonment work and the discount rate used to calculate the present value of future expenses would have a significant effect on the carrying amount of the decommissioning provision.

*Impairment testing*

The impairment testing of property and equipment is completed for each CGU, and is based on estimates of proved plus probable reserves, production rates, oil and natural gas prices, future costs, discount rate and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

**WILTON RESOURCES INC.**  
**Notes to the Financial Statements**  
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*Fair values of stock options and warrants*

The amounts recorded for the fair values of stock options and warrants is based on estimates of the expected volatility of the Corporation's share price, expected lives of the options and warrants, expected future dividend rates and other relevant assumptions.

**4. Significant accounting policies**

4.1 Cash

Cash comprises of cash on hand, cash at bank and short-term investments include investments in highly liquid instruments with original maturities of three months or less.

4.2 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

4.2.1 *Financial assets*

Financial assets include accounts receivable and cash. Purchases and sale of financial assets are recognized on the settlement date, which is the date in which the asset is delivered to or by the Corporation. Financial assets are derecognized when the rights to receive cash flows have expired or are transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of the initial recognition based on the purpose for which the financial assets were acquired:

Classification

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy. The Corporation has designated cash as held for trading.

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Recognition and measurement

Financial assets carried at fair value through profit or loss are initially recognized, and subsequently carried, at fair value, with changes recognized in the statement of operations and comprehensive loss. Transaction costs are expensed when incurred.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets. Assets in this category include accounts receivable which are classified as current assets in the statement of financial position.

The Corporation has designated accounts receivable as loans and receivables.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They consist of investments in equity securities and certain other debt securities. They are included in other non-current financial assets unless management intends to dispose of the investments within 12 months of the reporting date. Changes in fair value of available-for-sale financial assets are recorded in comprehensive loss until realized, at which time they are recorded through the Statement of operations. The Corporation does not have any financial assets recorded as available-for-sale.

**WILTON RESOURCES INC.**  
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*4.2.2 Financial liabilities*

Financial liabilities primarily consist of accounts payable and accrued liabilities and debentures. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities that are not hedged, and fair value for liabilities that are hedged. Non-performance risk, including the Corporation's own credit risk for financial liabilities, is considered when determining the fair value of financial liabilities.

*4.2.3 Equity instruments*

Common shares are classified as equity. Incremental costs directly attributable to the common shares are recognized as a deduction from equity, net of any tax effects.

*4.2.4 Impairment*

The Corporation addresses at each reporting date whether there is objective evidence that a financial asset, other than those at fair value through profit and loss, or a group of financial assets, is impaired. When an impairment has occurred, the loss is recognized in the statement of operations and comprehensive loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Receivables that are assessed not to be impaired are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables may include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in the national or local economic conditions that may default on receivables.

For financial assets carried at amortized cost, the amount of impairment loss recognized is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive loss are reclassified to the statement of operations in the period.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account

**WILTON RESOURCES INC.**  
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receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited through the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations or comprehensive loss.

With the exception of available-for-sale equity instruments, an impairment loss on financial assets is reversed if the reversal can be related objectively to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through the statement of operations to the extent the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any increase in fair value subsequent to an impairment loss with respect to available-for-sale equity instruments is recognized in comprehensive loss.

#### 4.3 Income taxes

Income tax expense or recovery is comprised of current and deferred tax. Income tax expense or recovery in the statement of operations and comprehensive loss except to the extent that it relates to items recognized in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, including carry forward of non-capital losses, can be utilized.

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 are related to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, where the intention is to settle current tax liabilities and asset 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

## **WILTON RESOURCES INC.**

### **Notes to the Financial Statements**

#### **Years ended December 31, 2016 and 2015**

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are reviewed at each reporting date and are reduced to the extent that it is not probable that the related tax benefit will be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered.

#### 4.4 Share-based compensation

Options granted to employees and directors are recorded at their estimated fair value using a Black-Scholes option pricing model. The associated compensation cost is recognized over the vesting period of the options, net of an estimated forfeiture rate. When the options are exercised, share capital is adjusted to recognize the proceeds received and the associated non-cash compensation costs.

#### 4.5 Warrants

Warrants granted to non-employees are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is estimated using a Black-Scholes option pricing model.

#### 4.6 Exploration and evaluation assets

Pre-licence costs are recognized in the statement of operations and comprehensive loss as incurred. Costs associated with acquiring an exploration licence, including costs to acquire acreage and exploration rights, legal and other professional fees and land brokerage fees are capitalized as exploration and evaluation ("E&E") assets. Geological, geophysical and seismic costs associated with assessing exploration licences are also capitalized to E&E. Land acquisition costs and expenditures directly associated with exploratory wells are capitalized as E&E assets and remain capitalized until the Corporation has made a determination of reserves or has chosen to discontinue all exploration activities in the associated area. E&E assets are not subject to depreciation and depletion.

At least annually a review of each exploration area is carried out to identify whether technical feasibility and commercial viability has been achieved, which is often when proved reserves have been discovered. Upon determination of technical feasibility and commercial viability, E&E assets, including land acquisition costs, related seismic and costs directly associated with exploratory wells attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property and equipment. E&E assets are assessed for impairment if (i) sufficient data exists to determine the lack of technical feasibility and

## WILTON RESOURCES INC.

### Notes to the Financial Statements

#### Years ended December 31, 2016 and 2015

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commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to CGU's, which are the smallest group of assets capable of generating largely independent cash inflows.

If no reserves are identified, the capitalized exploration costs and relevant dry hole costs are charged to the statement of operations and comprehensive loss as impairment.

#### 4.7 Property and equipment

##### *Petroleum and natural gas assets*

Development and production costs, including E&E transfers, proved property acquisitions, seismic and geological analysis of proved reserves, drilling, completion, equipping and tying in of development wells, facility and road construction, and decommissioning costs related to oil and gas reserves which have reached technical feasibility and commercial viability are capitalized within property and equipment.

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

Repairs, maintenance and the day-to-day servicing of the items of property and equipment are expensed as incurred. The carrying amount of any replaced or sold component is derecognized and any gains or losses from the divestiture of property and equipment are recognized in the statement of operations and comprehensive loss.

##### *Depletion*

Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Petroleum and natural gas assets are depleted using the unit-of-production method over their reserve life based on proved plus probable reserve volumes, unless the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

**WILTON RESOURCES INC.**  
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Proved plus probable reserves are estimated using independent reserves 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 viable.

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

- (a) a reasonable assessment of the future economics of such production;
- (b) a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and,
- (c) evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proved plus probable if their ability to be produced is supported by either actual production or a conclusive formation test.

#### Disposals

Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the statement of operations and comprehensive loss in the year of derecognition.

Assets held under finance leases will be depreciated over the expected lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

#### 4.8 Loss per share

Basic loss per share is calculated by dividing the net loss attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the year. The Corporation uses the treasury stock method to determine the dilutive effect of issued instruments such as options and warrants. This method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price for the year. These instruments are not included in the per share calculation if the effect of their inclusion is antidilutive.

#### 4.9 Revenue and expense recognition

Revenue derived from the sale of the Corporation's petroleum and natural gas products

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is recognized when title to the product passes from the Corporation to its customer and if collection is reasonably assumed.

4.10 Business combinations

The Corporation measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquire, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in the statement of operations and comprehensive loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

4.11 New accounting standards and interpretations

The following are the standards, amendments and interpretations used by IASB and applicable to the Corporation but are not yet effective and have not been early adopted in these financial statements.

The IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue". IAS 15 specifies revenue recognition criteria and expanded disclosures for revenue. The new standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted. The Corporation currently has no revenue and will assess new contracts as they are entered into.

The IASB completed the final sections of IFRS 9 "Financial Instruments" which replaces IAS 39 "Financial Statement: Recognition and Measurement". IFRS 9 provides guidance on the recognition and measurement, impairment and derecognition on financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted. The Corporation is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Corporation is

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currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

**5. Determination of fair values**

Certain of the Corporation's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values due to their short term to maturity.

The significance of inputs used in making fair value measurements for assets and liabilities measured at fair value are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash is measured at fair value based on a Level 1 designation.

**6. Financial risk management**

**6.1 Overview**

The Corporation's planned operations will expose it to a variety of financial risks that arise as a result of its operating and financing activities:

- credit risk;
- liquidity risk; and,
- market risk.

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risks, and the Corporation's management of capital.

The Corporation employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Corporation's business objectives and risk tolerance levels. While the Directors have the overall responsibility for the establishment and oversight of the

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Corporation's risk management framework, management has the responsibility to administer and monitor these risks.

6.2 Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk at December 31, 2016 and 2015 is as follows:

	Carrying amount	Carrying amount
	<b>2016</b>	<b>2015</b>
Cash	\$ 316,370	\$ 205,439
Accounts receivable	89,218	72,055
<b>Total</b>	<b>\$ 405,588</b>	<b>\$ 277,494</b>

Cash consists of cash bank balances. The Corporation manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Corporation's accounts receivable relates to GST receivables, are from the Canadian government and is subject to credit risk that would be considered normal in the environment.

6.3 Liquidity risk

Liquidity risk includes the risk that, as a result of the Corporation's operational liquidity requirements: (a) The Corporation will not have sufficient funds to settle a transaction on the due date; (b) The Corporation will be forced to sell financial assets at a value which is less than the fair value; or, (c) The Corporation may be unable to settle or recover a financial asset at all.

The Corporation's operating cash requirements including amounts projected to complete the Corporation's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Corporation to conduct equity issues or obtain project debt financing.

The Corporation's liquidity risk is reflected in Note 2, Going Concern. The Corporation will require additional funding to reduce its exposure to liquidity risk. The Corporation continuously monitors its actual and forecast cash flows to review whether there are adequate reserves to meet the maturing profiles of its liabilities (see note 2). The following table outlines the maturities of the Corporation's liabilities:

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	Contractual Cash Flows	Less than 1 year	Greater than 1 year
Accounts payable and accrued liabilities	\$ 1,003,265	\$ 1,003,265	\$ -

6.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Corporation's net income or the value of financial instruments. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

*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 Corporation had no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2016 and 2015.

*Commodity price risk*

The Corporation's financial performance is closely linked to natural gas and crude oil prices. While the Corporation may employ the use of various financial instruments in the future to manage these price exposures, the Corporation is not currently using any such instruments. The Corporation currently has not obtained any hedging instruments to mitigate the potential effects of price fluctuations. The Corporation does not currently have significant commodity price risk exposure.

*Foreign exchange risk*

The Corporation mainly transacts in Canadian dollars which is the Corporation's functional currency, therefore, the exposure to foreign currency fluctuation risk is minimal.

6.5 Capital management

The Corporation's capital management policy is to maintain a capital base that optimizes the Corporation's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Corporation intends to maintain a flexible capital structure to maximize its ability to pursue additional investment opportunities, which considers the Corporation's early stage of development and the requirement to sustain

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future development of the business (see note 2).

The Corporation will manage its capital structure and make changes to it in the light of changes to economic conditions and the risk characteristics of the nature of the business. The Corporation considers its capital structure to include shareholders' equity/deficit and working capital deficit. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure.

The Corporation is not subject to externally imposed capital requirements.

**7. Property and equipment**

**Petroleum and natural gas**

<b>Cost</b>		
Balance at January 1, 2016	\$	867,190
Additions		-
Balance December 31, 2016	\$	867,190
<b>Accumulated depletion and impairment</b>		
Balance at January 1, 2016	\$	834,733
Change in decommissioning obligations		5,988
Balance December 31, 2016	\$	840,721
<b>Net book value, December 31, 2016</b>	<b>\$</b>	<b>26,469</b>

<b>Cost</b>		
Balance at January 1, 2015	\$	867,190
Additions		-
Balance December 31, 2015	\$	867,190
<b>Accumulated depletion and impairment</b>		
Balance at January 1, 2015	\$	718,615
Impairment		116,118
Balance December 31, 2015	\$	834,733
<b>Net book value, December 31, 2015</b>	<b>\$</b>	<b>32,457</b>

The depletion of petroleum and natural gas properties is recognized as depreciation and depletion in the statement of operations and comprehensive loss. No depletion was recorded for the years

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ended December 31, 2016 and 2015 as there was no production. The impairment of petroleum and natural gas properties, and any eventual reversal thereof, are recognized as impairment of property and equipment in the statement of operations and comprehensive loss.

For the year ended December 31, 2015, the Corporation recognized an impairment loss in the amount of \$116,118 on its oil and gas well located in Monitor, Alberta as a result of a decline in forecasted production volumes and natural gas prices. The impairment recognized was based on the difference between the carrying amount of the CGU (including decommissioning costs) and the value in use. In assessing value in use, the estimated future cash flows were discounted to their present value using pre-tax discount rates of 17.5 percent. The amount of value in use was computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. As at December 31, 2016 there were no indicators of impairment identified.

The following represents the prices at C\$/mcf that were used in the December 31, 2015 impairment test.

Year	Average Price Forecast (\$)
2016	2.55
2017	3.02
2018	3.31
2019	3.71
2020	4.06
2021	4.52
2022	4.81

If the discount rate was increased by 2%, the impairment charge for the year ended December 31, 2015 would have increased by approximately \$6,773. If the forecasted gas price declined by 10% the impairment charge would have increased by approximately \$34,914.

#### 8. Debentures

On October 21, 2015, all holders of the debentures, in the aggregate amount of \$1.0 million, agreed to certain amendments to the terms of the Debentures, including a reduction of the conversion price thereof from \$1.25 to \$0.40, and elected to convert the entirety of the debentures into 2,500,000 common shares of the Corporation at \$0.40 cents per common share. As a result of the variance between the original conversion price and the fair market value of the Corporation's share price at the date of the conversion, the Corporation incurred a loss in the amount of \$731,000.

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##### 9. Decommissioning obligation

Decommissioning obligations are estimated based on the Corporation's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in the future periods. These costs are expected to be incurred in 2028 (2015 – 2023), depending on the estimated reserve life. The undiscounted amount of the estimated costs at December 31, 2016 was \$52,756 (2015 - \$51,093). The estimated costs have been discounted at a risk free rate of 1.5% (2015 - 1.14%) and an inflation rate of 1.2% (2015 - 1.6%) has been applied.

Balance, January 1, 2015	\$	48,064
Accretion expense		1,479
Balance, December 31, 2015		49,543
Accretion expense		570
Change in estimate - assumptions		(5,988)
<b>Balance December 31, 2016</b>	<b>\$</b>	<b>44,125</b>

##### 10. Share capital

###### (a) Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which are issued and outstanding as of the date hereof.

###### (b) Common Shares

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value.

The holders of Common Shares are entitled to dividends, if, as and when declared by the board of directors, to one vote per share at meetings of the shareholders of the Company and, upon dissolution, to share equally in such assets of the Company as are distributable to the holders of Common Shares.

	Number of shares
Balance at January 1, 2015	29,406,923
Common shares issued	4,220,000
Conversion of debentures	2,500,000
Balance at December 31, 2015	36,126,923
Common shares issued	4,733,500
Warrants exercised	176,750
Balance, December 31, 2016	41,037,173

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On September 9, 2016, 31,500 finders warrants that were granted on November 4, 2015 and December 30, 2015 were exercised at \$0.40 in exchange for 31,500 common shares for gross proceeds of \$12,600.

On August 5, 2016, 31,605 finders warrants that were granted on March 17, 2015, were exercised at \$0.25 in exchange for 31,605 common shares for gross proceeds of \$7,901.

On April 1, 2016, the Corporation closed the second tranche of a private placement for an aggregate of 2,725,500 units of the Corporation at a purchase price of \$0.40 per unit for gross proceeds of \$1,090,200 (net proceeds of \$1,023,140 after deducting offering costs). Each unit consists of one common share in the capital of the Corporation and one common share purchase warrant. The fair value assigned to the purchase warrants pursuant to the unit offering was \$484,533. Each purchase warrant entitles the holder to purchase an additional common share for a period of twenty-four months from the date of issuance at an exercise price of \$0.60 per common share. The fair value of the purchase warrants granted in 2016 was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	195%
Dividend yield	0%
Risk-free interest rate	0.45%
Expected option life	2 years

If at any time prior to the expiry of the purchase warrants the trading price of the common shares exceeds \$1.25 for a period of twenty-one consecutive trading days, the Corporation may provide notice to the holders of the purchase warrants that the purchase warrants will expire twenty-one days after the date of the notice.

In connection with the private placement, the Corporation paid a finder's fee of \$76,314 being 7.0% of the gross proceeds raised from applicable subscriptions in the offering and granted 190,785 finder's warrants equal to 7% of the gross proceeds raised from applicable subscriptions in the offering. Each finders warrant entitles the holder to acquire one additional Common Share at a price of \$0.40 for a period of twenty-four months from the closing date of the private placement. The finders warrants vest immediately with a strike price of \$0.40 for a period of twenty-four month from the date of the issue equity issuance. The fair value of the finders warrants granted was \$0.33 per warrant.

On March 23, 2016, the Corporation closed the first tranche of a private placement of 2,008,000 units of the Corporation at a purchase price of \$0.40 per unit for gross proceeds of \$803,200 (net proceeds of \$701,941 after deducting offering costs). Each unit consists of one common share in the capital of the Corporation and one common share purchase warrant. The fair value assigned to the purchase warrants pursuant to the unit offering was \$346,810. Each purchase warrant entitles the holder to purchase an additional common share for a period of twenty-four months from the date of issuance at

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an exercise price of \$0.60 per common share. The fair value of the purchase warrants granted in 2016 was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	194%
Dividend yield	0%
Risk-free interest rate	0.46%
Expected option life	2 years

If at any time prior to the expiry of the purchase warrants the trading price of the common shares exceeds \$1.25 for a period of twenty-one consecutive trading days, the Corporation may provide notice to the holders of the warrants that the purchase warrants will expire twenty-one days after the date of the notice.

In connection with the private placement, the Corporation paid a finder's fee of \$56,224 being 7.0% of the gross proceeds raised from applicable subscriptions in the offering. The Corporation issued an aggregate of 140,560 finders warrants in exchange for services in connection with the private placement. The fair value of the finders warrants pursuant to the offering was \$44,979. The finders warrants vest immediately with a strike price of \$0.40 for a period of twenty-four months from the date of the issue equity issuance. The fair value of the finders warrants granted was \$0.32 per warrant.

On November 4, November 13, November 27 and December 30, 2015, the Corporation closed private placements with an aggregate of 1,175,000 units of the Corporation at a price of \$0.40 per unit for gross proceeds of \$470,000 (net proceeds of \$402,406 after deducting offering costs). Each unit consists of one common share in the capital of the Corporation and one common share purchase warrant. The fair value assigned to the warrants pursuant to the unit offering was \$153,840.

Each warrant entitles the holder to purchase an additional common share for a period of twenty-four months from the date of issuance at an exercise price of \$0.60 per common share. The fair value of the purchase warrants was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	158% - 177%
Dividend yield	0%
Risk-free interest rate	0.43% - 0.52%
Expected life	2 years

If at any time prior to the expiry of the purchase warrants the trading price of the common shares exceeds \$1.25 for a period of twenty-one consecutive trading days, the Corporation may provide notice to the holders of the purchase warrants that the warrants will expire twenty-one days after the date of the notice.

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In connection with the private placement, the Corporation paid a finder's fee of \$30,100 being 7.0% of the gross proceeds raised from applicable subscriptions in the offering.

On October 21, 2015, all holders of the Debentures, in the aggregate amount of \$1.0 million, agreed to certain amendments to the terms of such Debentures, including a reduction of the conversion price thereof from \$1.25 to \$0.40, and elected to convert the entirety of the Debentures into 2,500,000 common shares of the Corporation at \$0.40 cents per common share.

On June 30, 2015, the Corporation closed a private placement of 1,045,000 units of the Corporation at a price of \$0.40 per unit for gross proceeds of \$418,000 (net proceeds of \$373,624 after deducting offering costs). Each unit consists of one common share in the capital of the Corporation and one common share purchase warrant. The fair value assigned to the purchase warrants pursuant to the unit offering was \$135,850.

Each purchase warrant entitles the holder to purchase an additional common share for a period of twenty-four months from the date of issuance at an exercise price of \$0.75 per common share. The fair value of the purchase warrants granted was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	143%
Dividend yield	0%
Risk-free interest rate	0.58%
Expected life	2 years

If at any time prior to the expiry of the warrants the trading price of the common shares exceeds \$1.25 for a period of twenty-one consecutive trading days, the Corporation may provide notice to the holders of the purchase warrants that the purchase warrants will expire twenty-one days after the date of the notice.

In connection with the private placement, the Corporation paid a finder's fee of \$29,260 being 7.0% of the gross proceeds raised from applicable subscriptions in the offering and issued 73,150 finders warrants, equal to 7.0% of the gross proceeds raised from applicable subscriptions in the offering. Each finders warrant entitles the holder to acquire one Common Share at a price of \$0.75 for a period of twenty-four month from the closing date of such private placement.

On February 27, 2015 and March 18, 2015, respectively, the Corporation closed a private placement of 2,000,000 units of the Corporation at a price of \$0.25 per unit for gross proceeds of \$500,000 (net proceeds of \$425,423 after deducting offering costs). Each unit consists of one common share in the capital of the Corporation and one common share purchase warrant. The fair value assigned to the purchase warrants pursuant to the unit offering was \$218,207. Each purchase warrant entitles the holder to purchase an additional common share for a period of twenty-four months from the date of

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issuance at an exercise price of \$0.50 per common share. The fair value of the purchase warrants was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	193%
Dividend yield	0%
Risk-free interest rate	0.53% - 0.57%
Expected life	2 years

If at any time prior to the expiry of the purchase warrants the trading price of the common shares exceeds \$1.00 for a period of twenty-one consecutive trading days, the Corporation may provide notice to the holders of the purchase warrants that the warrants will expire twenty-one days after the date of the notice.

In connection with the private placement, the Corporation paid a finder's fee of \$35,000 being 7.0% of the gross proceeds raised from applicable subscriptions in the offering and issued 140,000 finders warrants, equal to 7.0% of the gross proceeds raised from applicable subscription in the offering. Each finders warrant entitles the holder to acquire one Common Share at a price of \$0.25 for a period of eighteen months from the closing date of such private placement.

#### 11. Stock options

	Number of options
Balance at January 1, 2015	2,925,000
Options granted	-
Balance, December 31, 2015	2,925,000
Balance at January 1, 2016	2,925,000
Options granted	2,575,000
Options expired and cancelled	(1,400,000)
Balance, December 31, 2016	4,100,000

At December 31, 2016, the Corporation had 4,100,000 (2015 - 2,925,000) issued and outstanding stock options. The options are held by officers, directors and consultants of the Corporation. These options vested on grant.

As at December 31, 2016, the Corporation had stock options outstanding and exercisable as follows:

Exercise price	Number outstanding and exercisable	Grant date	Expiration date
\$0.80	400,000	July 24, 2013	July 24, 2018
\$0.90	200,000	August 15, 2013	August 15, 2018
\$0.99	50,000	September 13, 2013	September 13, 2018

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\$0.80	100,000	December 18, 2013	December 18, 2018
\$0.65	400,000	July 10, 2014	July 10, 2019
\$0.30	375,000	December 29, 2014	December 29, 2019
\$0.18	685,000	February 17, 2016	February 17, 2021
\$0.59	1,740,000	October 31, 2016	October 31, 2021
\$0.63	150,000	December 2, 2016	December 2, 2021
	4,100,000		

For the year ended December 31, 2016, 2,575,000 stock options were granted (2015 - nil). The fair value of the options granted during 2016 was as follows: February 17, 2016 - \$0.24; October 31, 2016 - \$0.52; and December 2, 2016 - \$0.67. The fair value of stock options granted in 2016 was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	247% - 271%
Dividend yield	0%
Risk-free interest rate	0.46% - 0.60%
Expected option life	5 years

The stock options granted for the year ended December 31, 2016 resulted in stock-based compensation expense in the amount of \$1,169,700.

#### 12. Warrants

	Number of warrants
Balance at January 1, 2015	1,347,000
Common shares issued	4,220,000
Warrants issued as finders fees	288,400
Expiry of warrants	(147,000)
Balance at December 31, 2015	5,708,400
Warrants issued in private placement	4,733,500
Warrants issued as finders fees	331,345
Warrants exercised	(176,750)
Balance, December 31, 2016	10,596,495

On September 9, 2016, 31,500 finders warrants that were granted on November 4, 2015 and December 30, 2015 were exercised at \$0.40 in exchange for 31,500 Common Shares for gross proceeds of \$12,600. The fair market value assigned to the finders warrants at the time of grant were 10,500 at \$0.25 per warrant and 21,000 at \$0.23 per warrant, respectively.

On August 31, 2015, the TSX Venture Exchange (the "TSXV") consented to an application of the Company to extend the expiry date of 1.2 million Common Share purchase warrants that were

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issued to subscribers as part of the Company's private placement financing, which closed on September 15, 2014 from September 5, 2015 to September 5, 2016. The TSXV subsequently approved the extension of the term of the warrants from September 5, 2016 to March 5, 2016. On March 1, 2017, the TSXV approved an extension of the expiry date from March 5, 2017 to April 6, 2017. On March 29, 2017, the TSXV further approved an extension of the expiry date from April 6, 2017 to June 6, 2017.

In relation to the extension of the term of the warrants from September 5, 2016, to March 5, 2017, the purchase warrants were revalued for the period of the extension, with a fair value assigned of \$0.24. As a result, the fair value of the purchase warrants pursuant to the extension was \$288,000. The fair value of purchase warrants granted was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	98%
Dividend yield	0%
Risk-free interest rate	0.52%
Expected option life	0.5 years

On August 5, 2016, 31,605 finders warrants that were granted on March 17, 2015, were exercised at \$0.25 in exchange for 31,605 Common Shares for gross proceeds of \$7,902. The fair market value assigned to the finders warrants at the time of grant was \$0.19 per warrant.

On May 17, 2016, 113,645 finders warrants that were granted on February 17, 2015 and November 30, 2015, were exercised (5,250 warrants at \$0.40 per warrant and 108,395 warrants at \$0.25 per warrant) in exchange for 113,645 Common Shares for gross proceeds of \$29,199. The fair market value assigned to the finders warrants at the time of grant were 5,250 warrants at \$0.25 per warrant and 108,395 warrants at \$0.19 per warrant

On April 1, 2016, an aggregate of 190,785 finders warrants were granted in exchange for services in conjunction with the closing of the private placement on April 1, 2016. The fair value assigned to the finders warrants pursuant to the offering was \$62,959. The finders warrants vested immediately with a strike price of \$0.40 for a period of twenty-four months from the date of issue of the equity issuance. The fair value of the finders warrants granted was \$0.33 per warrant. The fair value of finders warrants granted was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	195%
Dividend yield	0%
Risk-free interest rate	0.45%
Expected life	2 years

On March 23, 2016, an aggregate of 140,560 finders warrants were granted in exchange for services in conjunction with the closing of the private placement on March 23, 2016. The fair value assigned to the finders warrants pursuant to the offering was \$44,979. The finders warrants vested immediately with a strike price of \$0.40 for a period of twenty-four months from the date of issue of

## WILTON RESOURCES INC.

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the equity issuance. The fair value of the finders warrants granted was \$0.32 per warrant. The fair value of finders warrants granted was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	194%
Dividend yield	0%
Risk-free interest rate	0.46%
Expected life	2 years

On November 4, November 13, November 27, and December 30, 2015, the Company granted 75,250 finders warrants in exchange for services in conjunction with the equity issuances on the respective dates. The finders warrants vested immediately with a strike price of \$0.40 for a period of twenty-four months from the date of issue of the equity issuance. The fair value of the finders warrants granted was: November 4, 2015 - \$0.25, November 13, 2015 - \$0.21, November 27, 2015 - \$0.25 and December 30, 2015 - \$0.23. The fair value of finders warrants granted in 2015 was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	158% - 177%
Dividend yield	0%
Risk-free interest rate	0.43% - 0.52%
Expected life	2 years

On February 27, 2015 and March 18, 2015, an aggregate of 140,000 finders warrants were granted in exchange for services in conjunction with the private placement. The fair value assigned to the finders warrants pursuant to the offering was \$26,916. The finders warrants vested immediately with a strike price of \$0.25 for a period of eighteen months from the date of issue of the equity issuance. The fair value of the finders warrants was \$0.19 (February 27, 2015) and \$0.20 (March 18, 2015). The fair value of finders warrant granted in 2015 was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	193%
Dividend yield	0%
Risk-free interest rate	0.53-0.57%
Expected life	1.5 years

On June 30, 2015, an aggregate of 73,150 finders warrants were granted in exchange for services in conjunction with the private placement on June 30, 2015. The fair value assigned to the finders warrants pursuant to the offering was \$14,630. The finders warrants vested immediately with a strike price of \$0.75 for a period of twenty-four months from the date of issue of the equity issuance. The fair value of the finders warrants granted was \$0.20. The fair value of finders warrants granted in 2015 was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

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Annualized volatility	143%
Dividend yield	0%
Risk-free interest rate	0.58%
Expected life	2 years

On August 31, 2015, the TSXV consented to an application of the Company to extend the expiry date of the 1.2 million Common Share purchase warrants that were issued to subscribers as part of the Company's private placement financing, which closed on September 15, 2014 from September 5, 2015, to September 5, 2016. The TSXV further consented to the extension of the terms of the warrants from September 5, 2016 to March 5, 2016. On March 1, 2017, the TSXV approved an extension of the expiry date from March 5, 2017 to April 6, 2016. On March 29, 2017, the TSXV further approved an extension of the expiry date from April 6, 2017 to June 6, 2017. The purchase warrants were revalued for the period of the extension, with a fair value assigned of \$0.06. As a result, the fair value of the purchase warrants pursuant to the extension was \$72,000. The fair value of purchase warrant options granted was estimated using the Black-Scholes option pricing model based on the date of grant using the following assumptions:

Annualized volatility	130%
Dividend yield	0%
Risk-free interest rate	0.37%
Expected life	1 year

As at December 31, 2016, the Corporation had the following warrants outstanding:

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Exercise price		Number outstanding	Expiration date	Conversion price
\$0.50	(1)	1,548,500	February 27, 2017	\$1.00
\$0.50	(1)	451,500	March 17, 2017	\$1.00
\$1.00	(1)	1,200,000	June 6, 2017	\$1.50
\$0.60	(1)	1,045,000	June 29, 2017	\$1.25
\$0.75	(2)	73,150	June 29, 2017	-
\$0.40	(2)	10,500	November 4, 2017	-
\$0.60	(1)	400,000	November 4, 2017	\$1.25
\$0.40	(2)	1,750	November 27, 2017	-
\$0.40	(2)	5,250	November 30, 2017	-
\$0.40	(2)	21,000	December 30, 2017	-
\$0.60	(1)	600,000	December 30, 2017	\$1.25
\$0.60	(1)	2,008,000	March 23, 2018	\$1.25
\$0.40	(2)	140,560	March 23, 2018	-
\$0.60	(1)	2,725,500	April 1, 2018	\$1.25
\$0.40	(2)	190,785	April 1, 2018	-
		10,596,495		

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Note (1): If at any time prior to the expiry of the purchase warrants the trading price of the common shares exceeds the conversion price for a certain period of time, the Corporation may

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provide notice to the holder of the purchase warrants that the warrants will be subject to early expiry.

Note (2): These warrants were issued to agents as finder's warrants. Other than the right of the holders of the warrants to receive the number of common shares that they are entitled to under the terms of the finder's warrants, the holders do not retain any right(s) of conversion or right(s) of acceleration on the 442,995 finders warrants expiring June 2017, November 2017, December 2017, March 2018 and April 2018.

**13. Loss per share**

The weighted average number of shares outstanding for the year ended December 31, 2016 was 39,826,675 (2015 – 32,177,393). For the years ended December 31, 2016 and 2015, the outstanding options, purchase and finders warrants and debentures were excluded from the diluted loss per share calculation as the instruments were anti-dilutive.

**14. Income tax**

The provision for income taxes differs from the expected amount calculated by applying the Corporation's combined Federal and Provincial corporate tax rates as result of the following:

Reconciliation of effective tax rate	December 31,	
	2016	2015
Loss before income taxes	\$ (2,951,893)	(2,130,067)
Combined federal and provincial statutory tax rate	27.0%	26.0%
Expected income tax recovery	(797,011)	(553,817)
Stock-based compensation	315,819	-
Other non-deductible expenses	8,610	202,016
Change in unrecognized tax asset	472,582	488,838
Change in enacted tax rates	-	(134,102)
Other	-	(2,935)
<b>Income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax assets have not been recognized for the following deductible temporary differences:

	December 31,	
	2016	2015
Non-capital losses (Expiring 2027-2035)	\$ 8,601,691	\$ 6,713,974
Decommissioning liability	44,125	49,543
Share issue costs	357,465	195,015
Property and equipment	542,019	536,031
Other	60,319	84,496

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Total deferred tax asset	\$ 9,605,619	\$ 7,579,059
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**15. General and administrative**

For the year ended December 31, 2016, the Corporation incurred general and administrative expenses of \$1,781,623 (2015 – 1,139,400). The increase was due to increases in professional and consulting fees.

**16. Related Party Transactions**

Except as disclosed elsewhere, all related party transactions are in the normal course of operations.

In 2014, the Corporation entered into an agreement with Rick Anderson, Chief Executive Officer and a Director, whereby the Corporation pays for office and equipment rental. During the year ended December 31, 2016, the Corporation recorded \$48,000 as an expense for office and equipment rental (2015 - \$24,000), which are recorded at the exchange amount being the amount agreed between the related parties. An outstanding receivable of \$68,654 was due from Mr. Anderson at December 31, 2016.

**17. Officers and Directors compensation**

	Consulting fees	Stock-based compensation	Total
2015	\$ 200,000	\$ -	\$ 200,000
2016	\$ 250,000	\$ 345,800	\$ 595,800

In 2015 and 2016, consulting fees were paid by the Corporation to an Officer and Director.

Mr. Anderson received 665,000 options from the February and October 2016 issuances, resulting in a stock-based compensation amount of \$345,800 for 2016.

**18. Subsequent events**

On March 1, 2017, the TSX Venture Exchange approved the extension of the expiry date of 1,200,000 common share purchase warrants issued to subscribers as part of the Corporation's private placement financing which closed on September 15, 2014 from March 5, 2017 to April 6, 2017 and on March 29, 2017, subsequently approved further extension from April 6, 2017 to June 6, 2017.

Subsequent to December 31, 2016, 1,598,500 common share purchase warrants and 165,673 finders warrants were exercised for aggregate proceeds of \$799,250 and \$66,269, respectively and

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in total 1,764,173 number of common shares were issued. In addition, 426,500 common share purchase warrants expired post December 31, 2016.