

**SAMOTH OILFIELD INC.**

**Financial Statements**

**For the years ended October 31, 2016 and 2015**

# Independent Auditor's Report

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To the Shareholders of Samoth Oilfield Inc.

We have audited the accompanying financial statements of Samoth Oilfield Inc. (the "Company"), which comprise the statements of financial position as at October 31, 2016 and October 31, 2015, and the statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended October 31, 2016 and October 31, 2015, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the financial statements**

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

## **Auditor's responsibility**

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

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

We believe that the audit evidence we have obtained in our audit 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 Samoth Oilfield Inc. as at October 31, 2016 and October 31, 2015, and its financial performance and its cash flows for the years ended October 31, 2016 and October 31, 2015 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 that the Company had a net income of \$44,109 and had negative cash flows from operations of \$51,821 for the year ended October 31, 2016 and, as of that date, the Company had an accumulated deficit of \$2,660,171. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edmonton, Canada

February 13, 2017



Chartered Professional Accountants

**SAMOTH OILFIELD INC.**  
**Statements of Financial Position**

October 31	2016	2015
<b>ASSETS</b>		
Current Assets:		
Cash	\$41,953	\$83,454
Trade and other receivables	19,174	3,061
Prepays and deposits (Note 4)	638,298	582,438
	699,425	668,953
Deposit on equipment (Note 6c)	-	400,000
Equipment (Note 5)	381,266	-
	\$1,080,691	\$1,068,953
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Trade and other payables	\$126,114	\$165,080
Long term Liabilities:		
Decommissioning liabilities (Note 9)	248,275	251,580
	374,389	416,660
<b>EQUITY</b>		
Share capital (Note 10)	2,994,603	2,980,203
Warrants (Note 11)	-	5,000
Contributed surplus	371,870	371,370
Deficit	(2,660,172)	(2,704,280)
	706,301	652,293
	\$1,080,691	\$1,068,953

Going concern (Note 2)

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

**Approved on behalf of the Board:**

"Leonard D. Jaroszuk" Director

"Des O'Kell" Director

## SAMOTH OILFIELD INC.

### Statements of Income (loss) and Comprehensive Income (loss)

Years ended October 31	2016	2015
<b>Revenue</b>		
Petroleum and natural gas sales, net of royalties	\$ -	\$(7,690)
<b>Expenses</b>		
Production and transportation	57,374	48,913
Impairment (recovered) (Note 9)	(4,469)	(4,387)
Finance expense (Note 9)	1,164	3,957
General and administrative	91,350	77,554
Depreciation (Note 5)	18,314	-
	163,733	126,037
<b>Loss before other income</b>	(163,733)	(133,727)
Rental revenue	131,250	-
Other income	75,000	-
Interest income	1,591	3,525
	207,841	3,525
<b>Net income (loss) and comprehensive income (loss)</b>	\$44,108	\$(130,202)
<b>Income (loss) per share</b>		
Basic	\$0.001	\$(0.011)
Diluted	\$0.001	\$(0.011)
<b>Weighted average number of common - shares outstanding</b>		
Basic	31,348,861	21,487,933
Diluted	32,267,222	21,487,933

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

## SAMOTH OILFIELD INC.

### Statements of Changes in Equity

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
<b>Balance as at October 31, 2014</b>	<b>\$2,248,953</b>	<b>\$248,750</b>	<b>\$371,370</b>	<b>\$(2,574,078)</b>	<b>\$294,995</b>
Warrants exercised (Note 11)	731,250	(243,750)	-	-	487,500
Net loss	-	-	-	(130,202)	(130,202)
<b>Balance as at October 31, 2015</b>	<b>\$2,980,203</b>	<b>\$5,000</b>	<b>\$371,370</b>	<b>\$(2,704,280)</b>	<b>\$652,293</b>
Stock options exercised (Note 7)	14,400	-	(4,500)	-	9,900
Expired warrants (Note 11)	-	(5,000)	5,000	-	-
Net income	-	-	-	44,108	44,108
<b>Balance as at October 31, 2016</b>	<b>\$2,994,603</b>	<b>\$-</b>	<b>\$371,870</b>	<b>\$(2,660,172)</b>	<b>\$706,301</b>

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

**SAMOTH OILFIELD INC.**  
**Statements of Cash Flows**

Years ended October 31	2016	2015
Cash provided by (used in):		
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$44,108	\$(130,202)
Items not affecting cash:		
Finance expense (Note 9)	1,164	3,957
Impairment (recovered) (Note 9)	(4,469)	(4,387)
Depreciation (Note 5)	18,314	-
Change in non-cash working capital (Note 8)	(110,940)	(159,632)
	(51,821)	(290,264)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from exercised stock options	9,900	-
Proceeds from exercised warrants	-	487,500
Repayment of related party loan payable (Note 6)	-	(20,000)
	9,900	467,500
<b>INVESTING ACTIVITIES:</b>		
Deposit on equipment	400,000	(400,000)
Purchase equipment	(399,580)	-
	420	-
Change in cash	(41,501)	(222,764)
Cash, beginning of year	83,454	306,218
Cash, end of year	\$41,953	\$83,454

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

# **SAMOTH OILFIELD INC.**

## **Notes to the Financial Statements**

**For the years ended October 31, 2016 and 2015**

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### **1. Reporting Entity and Corporate Information**

Samoth Oilfield Inc. (the "Company") was incorporated under the Business Corporations Act (Alberta) on May 8, 2006. The Company is engaged in the development and production of natural gas, and natural gas liquids in western Canada. The Company is listed on the TSX Venture Exchange, trading under the symbol SCD. The Company's registered office is #2, 64 Riel Drive, St. Albert, Alberta, Canada, T8N 4A4.

### **2. Going Concern**

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at October 31, 2016, the Company had working capital of \$573,311 (October 31, 2015 - \$503,873) and an accumulated deficit of \$2,660,172 (October 31, 2015 - \$2,704,280). During the year ended October 31, 2016, the Company had a net income of \$44,108 (year ended October 31, 2015 - net loss of \$130,202) and negative cash flows from operations of \$51,821 (year ended October 31, 2015 - negative cash flows of \$290,264). These considerations create a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern. The Company however, has no secured debt and does not expect to undertake any such obligations in the near future. The Company's ability to continue as a going concern is dependent upon cash flows from field operations and the sale of property and equipment that has previously been fully impaired. Realization of asset values may be substantially different from carrying values as disclosed at October 31, 2016, and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

### **3. Significant Accounting Policies**

#### *(a) Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by the Board of Directors on February 9, 2017.

#### *(b) Basis of measurement*

These financial statements have been prepared on the historical cost basis except for certain financial assets that are measured at fair value.

#### *(c) Estimation uncertainty*

The timely preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements as well as the reported amounts of revenues, expenses, and cash flows during the period. Actual results could differ from these estimates.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 3. Summary of Significant Accounting Policies *(cont'd)*

#### *(c) Estimation uncertainty (cont'd)*

The calculation of decommissioning liabilities includes estimates of the ultimate settlement amounts, inflation factors, discount rates and timing of settlement. The impact of future revisions to these assumptions on the financial statements of future periods could be material.

Share-based compensation is based on estimates of the expected future life of options granted, estimated forfeiture rate on options issued, and the future volatility of the underlying stock during the period.

Valuation of the warrants is based on estimates of the relative value of the common shares, expected future life of the warrants, and the future volatility of the underlying stock during the period.

The Company follows the asset/liability method for calculating 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 the reporting period to determine the likelihood that they will be realized from future taxable earnings. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

#### *(d) Functional and presentation currency*

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

#### *(e) Cash*

Cash includes cash on hand, and cash on deposit with the Company's financial institution.

#### *(f) Financial instruments*

All financial assets are classified as fair value through profit or loss, available-for-sale, loans and receivables or held-to-maturity. All financial liabilities are classified as other financial liabilities or at fair value through profit or loss. All financial instruments are measured as fair value on initial recognition, with measurement in subsequent periods being dependent on the instrument's classification. Financial instruments classified at fair value through profit or loss are measured at fair value with changes in fair value recorded in the statement of loss. Financial assets classified as available-for-sale are measured at fair value with changes in fair value recognized in other comprehensive income. Financial instruments that are classified as held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. The Company has classified marketable securities as fair value through profit or loss. Cash and cash equivalents and trade and other receivable are classified as loans and receivables and trade and other payables and related party loan payable as other financial liabilities. The Company accounts for the purchase or sale of a financial asset at the trade date which is the date the Company commits to buy or sell the financial asset. Transaction costs related to financial assets or financial liabilities other than those classified as fair value through profit or loss will be capitalized to the initial carrying value of the financial asset or liability.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 3. Summary of Significant Accounting Policies *(cont'd)*

#### *(g) Property, plant and equipment*

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost consists of the purchase price, plus costs directly attributable to putting the asset in use and where applicable, an estimate of the costs of removing the item and site restoration.

Depreciation is calculated over the depreciable amount, which is the cost of asset less its residual value. Depreciation is not calculated for assets under construction until work is completed and the assets are put into use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets as follows:

Well site accommodations - 10 years

The useful lives, depreciation methods and residual values are reviewed at each reporting date for consistency with the expected pattern of economic benefits from the assets.

#### *(h) Share capital*

The Company records proceeds from share issuances net of share issue costs. Proceeds, and issue costs, from unit placements are allocated between shares and warrants issued according to their relative fair value. The fair value of the warrant is determined using the Black-Scholes Option Pricing Model, while the fair value of the share is based on the market value at the time of issuance. The relative value of the share component is credited to share capital and the relative value of the warrant component is credited to warrants. Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in warrants is recorded as an increase to share capital. For those warrants that expire, the recorded value is transferred from reserve for warrants to contributed surplus.

#### *(i) Share-based payments*

Share-based payments are accounted for using the fair value method whereby compensation expense is recognized according to a graded schedule over the vesting period, with an offsetting entry to contributed surplus. Forfeitures are estimated using a forfeiture rate to estimate the expected percentage of options granted that will be forfeited. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes Stock Option Pricing Model. Upon exercise of the stock option, the consideration received together with amounts previously recognized in contributed surplus are recorded as an increase in share capital. No adjustment is made for stock options which expire unexercised.

#### *(j) Decommissioning liabilities*

The Company's decommissioning liabilities are the result of its ownership of oil and natural gas assets, including wells and facilities. The total obligation includes the estimated costs to reclaim and abandon these wells and facilities and the estimated timing of those abandonments when a legal or constructive liability exists and a reasonable estimate can be made. The present value of the Company's decommissioning liabilities is recorded in the period a well or related asset is drilled, constructed or acquired.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 3. Summary of Significant Accounting Policies *(cont'd)*

Present value is estimated using the estimated future cash outflows to abandon the asset at the risk-free rate of interest. The discounted obligation is initially capitalized as part of the carrying amount of the underlying asset and a corresponding liability is recognized. The increase in the asset is amortized or depleted using the unit of production method. The liability is accreted against income until it is settled or the asset is sold and is recorded as financing expense. The obligations are reviewed regularly by management based upon current regulations, costs, technologies and industry standards.

Decommissioning expenses incurred are charged against the decommissioning liability to the extent of the liability recorded.

#### *(k) Provisions*

A provision is recognized when; the Company has a present legal or constructive obligation because of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

#### *(l) Impairment*

##### *Financial assets*

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency of payments;
- it is probable that the borrower will enter bankruptcy or financial re-organization; or
- significant or prolonged decline in the market value of investments below its cost.

For certain categories of financial assets, such as accounts receivable, the Company assesses for evidence of impairment at the specific asset level.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss or credited against the allowance account.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 3. Summary of Significant Accounting Policies *(cont'd)*

#### *Non-financial assets*

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. For the purposes of assessing impairment, assets are grouped into CGUs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. CGUs are the smallest identifiable group of assets that generate cash flows that are independent of the cash flows of other groups of assets. The determination of CGUs was based on management's judgments in regard to the geographic location of operating divisions, product groups and shared infrastructure.

#### *(m) Leases*

Agreements under which the Company is obligated to make payments to owners in return for the rights to use an asset are accounted for as leases. The Company accounts for its leases as operating leases as the terms of the leases do not transfer substantially all the risks and rewards of ownership. As such, the Company charges their costs to expenses on a straight-line basis over the term of the lease.

#### *(n) Revenue recognition*

Revenue from the sale of petroleum and natural gas is recognized when title passes to the customer based on volumes delivered to customers at contractual delivery points and rates. The Company's revenue is reported after deducting royalty payments to governments and other mineral interest owners. The costs associated with the delivery, including operating, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Revenue from rental contracts is recognized in the period in which the rental services have been provided and collectability is reasonably assured. Revenue from rental contracts is measured at fair value net of trade discounts. The Company recognizes revenue when it can be reliably measured, and it is probable that future economic benefits will flow to the Company.

Interest income is recognized as earned.

#### *(o) Interest in joint ventures*

A joint venture can take the form of a jointly controlled entity, jointly controlled operation or jointly controlled asset. All joint ventures involve a contractual arrangement that establishes joint control. The Company's joint ventures consist solely of jointly controlled assets.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 3. Summary of Significant Accounting Policies *(cont'd)*

A jointly controlled asset involves contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. These arrangements involve joint control of one or more of the assets acquired or contributed for the purpose of the joint venture. Each venture receives a share of the output from the assets, and bears an agreed upon share of the expenses rather than deriving returns from an interest in a separate entity. The financial statements of the Company include its share of the assets in such joint ventures, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Company's interest in the jointly controlled asset.

#### *(p) Finance expense*

Finance expense includes the accretion of the discount on its decommissioning liabilities.

#### *(q) Income taxes*

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly 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, and any adjustment to tax payable in respect of previous years.

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

The Company follows the asset/liability method for calculating deferred taxes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### *(r) Per share amounts*

Basic income (loss) per common share is computed by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants that are in the money are assumed to be used to purchase common shares of the Company at the average market price during the period. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 3. Summary of Significant Accounting Policies *(cont'd)*

#### *s) Changes in accounting policies*

Changes in accounting policies A number of new and revised standards are effective for annual periods beginning on or after January 1, 2015. Information on these standards is presented below:

#### *IFRS 2 - Share-based Payments*

These amendments clarify the definition of vesting conditions and separately define a performance condition and a service condition. The amendments are effective for a share-based payment transaction for which the grant date was on or after July 1, 2014. There was no material impact on the financial statements as a result of adopting this standard.

#### *IAS 24 - Related Party Disclosures*

These amendments clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments only affected disclosure and were effective for annual periods beginning on or after July 1, 2014. There was no material impact on the financial statements as a result of adopting this standard.

#### *(s) Accounting standards issued but not yet adopted*

The Company has reviewed the following new and revised accounting pronouncements that have been issued by are not yet effective as of the date of authorization of these financial statements. The Company plans to apply the revised standards on their effective date.

*IFRS 9*, "Financial instruments" will replace *IAS 39* "Financial Instruments: Recognition and Measurement". The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, extensive changes to *IAS 39*'s guidance on the classification and measurement of financial assets, impairment and hedge accounting. *IFRS 9* is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

*IFRS 11*, "Joint Arrangements" - these amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in *IFRS 3* 'Business Combinations' and other IFRSs except where those principles conflict with *IFRS 11*. Acquisitions of interests in joint ventures are not impacted by this new guidance. The Company's management does not expect this new standard to have a material impact on its financial statements. The amendments are effective for reporting periods beginning on or after January 1, 2016.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

### 3. Summary of Significant Accounting Policies (cont'd)

*IFRS 15*, "Revenue from Contracts with Customers" was issued May 2014, which will replace *IAS 11*, Construction Contracts, *IAS 18* Revenue Recognition, *IFRIC 13*, Customer Loyalty Programmes, *IFRIC 15*, Agreements for the Construction of Real Estates, *IFRIC 18*, Transfers of Assets from Customers, and *SIC-31*, Revenue-Barter Transactions involving Advertising Services. *IFRS 15* provides a single, principles-based five-step model that will apply to all the contracts with customers with limited exceptions, including, but not limited to, leases within the scope of *IFRS 9*, *IFRS 10*, Consolidated Financial Statements and *IFRS 11*, Joint Arrangements. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities.

*IFRS 15* is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its financial statements.

*IFRS 16*, "Leases" - in January 2016, the IASB issued a new standard on leases. *IFRS 16 - Leases* will require lessees to recognize assets and liabilities for most leases under a single accounting model for which all leases will be accounted for, with certain exemptions. For lessors, *IFRS 16* is expected to have little change from existing accounting standards (*IAS 17 - Leases*). *IFRS 16* will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, *IFRS 15* has been applied or is applied at the same date as *IFRS 16*. The Company's management has yet to assess the impact of *IFRS 16* on its financial position or results of operations.

### 4. Prepays and deposits

Years ended October 31	2016	2015
Prepays	7,299	10,378
Deposits	630,999	572,060
	\$638,298	\$582,438

Deposits is comprised of amounts paid to the Alberta Energy Regulator is required for the purpose of offsetting the difference between its deemed assets and deemed liabilities and/or to fulfill a site-specific security deposit requirement.

## SAMOTH OILFIELD INC.

### Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

#### 5. Equipment

	Cost			Accumulated depreciation		
	Balance at October 31, 2015	Additions	Balance at October 31, 2016	Balance at October 31, 2015	Depreciation for the year	Balance at October 31, 2016
Well site accommodations	\$-	399,580	\$399,580	\$-	18,314	\$18,314

#### Carrying Amounts

	Balance at October 31, 2015	Balance at October 31, 2016
Well site accommodations	\$-	\$381,266

#### 6. Related Party Transactions

##### (a) Related party loan payable

On December 19, 2014, the related party loan payable of \$20,000 was fully repaid. The director's loan bore interest at 0% and was unsecured, due on demand with no set terms of repayment.

##### (b) Key management personnel compensation.

The Company has determined key management personnel to be the Chief Executive Officer and Chief Financial Officer and board of directors. Compensation paid to key management personnel was:

	October 31, 2016	October 31, 2015
Management compensation	\$15,000	\$15,000
<b>Total</b>	<b>\$15,000</b>	<b>\$15,000</b>

##### (c) Purchase of equipment

On December 15, 2015, the Company entered an agreement with a Company related due to common directors, to purchase certain mobile well site office and accommodation units, for aggregate cash consideration of \$419,559, of which \$400,000 was paid as a deposit as of October 31, 2015. The Company has also entered into an agreement to lease these units back to the vendor at market rates, for a lease term of eighteen months, with additional month to month rentals based on mutual agreement between the parties. During the year, the agreement was executed to purchase the above mentioned assets and has entered into a month to month rental agreement.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

### 7. Share-based Compensation

Pursuant to the Company's stock option plan, the Company may reserve a maximum of 10% of the total issued and outstanding listed common shares with the exercise price and term to be determined by the Board of Directors on the date of issuance of the options. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants or employees will not exceed 2% of the issued and outstanding common shares.

On November 6, 2013 the Company issued 1,000,000 common share purchase options, of which all have been granted to directors and officers. The options are exercisable at a price of \$0.055 per share for a period of ten years from the date of grant.

A summary of stock option activity in the year is as follows:

	Year ended October 31, 2016		Year ended October 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding options, beginning of year	2,071,889	\$0.08	2,071,889	\$0.08
Exercised	(180,000)	(0.06)	-	-
Outstanding options, end of year	1,891,889	\$0.08	2,071,889	\$0.08

A summary of the options outstanding and exercisable at October 31, 2016 is as follows:

Exercise Price	Number of Options	Remaining Contractual Life (years)
\$0.10	1,071,889	5.2
\$0.06	820,000	7.0
\$0.08	1,891,889	

Expected volatility is based on historical volatility and the Company's average stock prices were used to calculate volatility. Management believes that the annualized average of volatility is the best measure of expected volatility. For the options that were granted during the year ended October 31, 2014, a forfeiture rate of 0% was used when recording share-based payments expense. This estimate is adjusted to the actual forfeiture rate.

During the year ended October 31, 2016, share-based payments expense of \$nil was expensed (October 31, 2015 - \$nil).

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

### 8. Supplemental Information

Changes in operating non-cash working capital consisted of the following:

Years ended October 31	2016	2015
Trade and other receivables	\$(16,113)	\$14,957
Prepays and deposits	(55,860)	(176,756)
Trade and other payables	(38,967)	2,167
	\$(110,940)	\$(159,632)

### 9. Decommissioning Liabilities

The following table presents the aggregate carrying amount of obligations associated with the decommissioning of the Company's oil and gas assets:

Years ended October 31	2016	2015
Balance, beginning of year	\$251,580	\$252,010
Finance expense	1,164	3,957
Revision of estimate	(4,469)	(4,387)
Balance, end of year	\$248,275	\$251,580

At October 31, 2016, the total undiscounted amount of estimated cash flows required to settle the obligation was \$251,566 which has been adjusted for inflation using a weighted average estimated inflation rate of 2% and, subsequently discounted using an unadjusted risk free rate of 0.56%. The cash flows related to reclamation and abandonment costs are expected to be incurred between 2016 and 2022. An increase in the risk free rate of 1% would result in a decrease in the liability of \$4,378.

### 10. Share Capital

Authorized:

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series. No preferred shares have currently been issued.

Issued and outstanding:

	October 31, 2016		October 31, 2015	
	Amount	Number of Shares	Amount	Number of Shares
<b>Common shares</b>				
Balance, beginning of year	\$2,980,203	31,267,222	\$2,248,953	21,517,222
Stock options exercised (Note 7)	14,400	180,000	-	-
Warrants exercised (Note 11)	-	-	731,250	9,750,000
Balance, end of year	\$2,994,603	31,447,222	\$2,980,203	31,267,222

## SAMOTH OILFIELD INC.

### Notes to the Financial Statements

#### For the years ended October 31, 2016 and 2015

#### 11. Warrants

A summary of warrants activity in the year is as follows:

	Year ended October 31, 2016			Year ended October 31, 2015		
	Amount	Number of Warrants	Weighted Average Exercise Price	Amount	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, beginning of year	\$5,000	200,000	\$0.05	\$248,750	9,950,000	\$0.05
Expired warrants	(5,000)	(200,000)	\$0.05	-	-	-
Exercised	-	-	-	(243,750)	(9,750,000)	\$0.05
Outstanding warrants, end of year	\$-	-	-	\$5,000	200,000	\$0.05
Exercisable warrants, end of year	\$-	-	-	\$5,000	200,000	\$0.05

#### 12. Income Taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to loss before income tax. Income tax rates changed from 25.67% in 2015 to 27.00% in 2016 due to an increase in provincial income tax rates. These differences result from the following:

	Year ended October 31, 2016	Year ended October 31, 2015
Income (loss) for the year before income taxes	\$44,108	\$(130,202)
Combined federal and provincial statutory rate	27.00%	25.67%
Expected income tax expense (recovery)	11,909	(33,423)
Difference resulting from:		
Effect of difference in tax rates and rate changes	-	(52,923)
Non-deductible expenses	-	-
Change in unrecognized deferred tax assets	(11,909)	86,351
Income tax expense recorded	\$ -	\$ -

Deferred tax assets have not been recognized in respect of the following items:

	Year ended October 31, 2016	Year ended October 31, 2015
Deductible temporary differences	\$1,513,098	\$1,499,371
Tax losses	1,132,841	1,190,677
	\$2,645,939	\$2,690,048

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 12. Income Taxes *(cont'd)*

At October 31, 2016, the Company had non-capital losses of \$1,132,841 (October 31, 2014 \$1,190,677) available to reduce future taxable income. The Company's tax losses expire between 2017 and 2036. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

### 13. Risk Management

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair value due to the short term nature of these items. The fair value of related party loan receivable and related party loan payable approximate carrying value as they are due on demand.

#### *Risks associated with financial assets and liabilities:*

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### *Credit risk*

The Company is exposed to credit risk which is the risk that a counterparty will fail to perform an obligation or settle a liability. Virtually all of the Company's accounts receivable are due from a related party for equipment rentals and GST refundable. The Company generally extends unsecured credit to the related party and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's financial liabilities are comprised of trade and other payables. As at October 31, 2016, all trade and other payables are due within twelve months or less of the reporting date. The Company manages its risk of not meeting its financial obligations through management of its capital structure and annual budgeting of its revenues, expenditures and cash flows.

#### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss or the value of financial instruments. These risks are generally outside the control of the Company. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

#### *Foreign exchange rate risk*

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Crude oil and natural gas prices are referenced to U.S. dollar denominated prices while all the Company's expenses are denominated in Canadian dollars. As at October 31, 2016 and October 31, 2015, the Company had no financial instruments denominated in foreign currencies, no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

# SAMOTH OILFIELD INC.

## Notes to the Financial Statements

For the years ended October 31, 2016 and 2015

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### 13. Risk Management (*cont'd*)

#### *Commodity price risk*

The Company is exposed to commodity price movements as part of its normal oil and gas operations. Oil and natural gas prices are impacted by global supply and demand, as well as political and other forces. Prices continue to be volatile and can undergo significant changes in relatively short time periods.

Management continuously monitors commodity prices and initiates instruments to manage its exposure to these risks when it deems necessary. The Company did not enter into any fixed forward contracts or derivative financial instruments during the years ended October 31, 2016 or October 31, 2015 and has no outstanding fixed forward contracts or derivative financial instruments as at October 31, 2016 or as at October 31, 2015.

### 14. Capital Management

The Company's capital consists of equity. The Company has no bank debt. The Company's objectives in managing its capital are to maintain adequate levels of funding to support its operations; to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; to perform development activities on its petroleum and natural gas projects; and to seek out and acquire new projects of merit. Funds are secured through debt financing or equity capital. There can be no assurance that the Company will be able to obtain sufficient capital in the case of operating cash deficits. The Company may, from time to time, invest its capital in short-term, liquid and highly rated financial instruments held with major financial institutions or in marketable securities. The Company does not maintain a formal investing strategy. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time, issue shares, obtain debt financing and adjust its capital spending. There were no changes in the Company's approach to capital management from the previous year. The Company does not have any externally imposed capital restrictions.

### 15. Segmented Disclosure

The Corporation has one operating segment; oil and gas exploration and production. At October 31, 2016 and October 31, 2015 all of the Corporation's assets were held in Canada.