

United Hunter Oil & Gas Corp.

Consolidated Financial Statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of United Hunter Oil & Gas Corp.

Opinion

We have audited the consolidated financial statements of United Hunter Oil & Gas Corp., (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Stephen McCourt.

RSM Canada LLP

Chartered Professional Accountants

Licensed Public Accountants

April 24, 2019

Toronto, Ontario

United Hunter Oil & Gas Corp.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	Notes	As at December 31,	
		2018	2017
		\$	\$
Assets			
Current			
Cash		119,445	69,365
Receivables		13,913	5,558
Prepaid expenses		21,480	9,961
		<u>154,838</u>	<u>84,884</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	10	187,083	192,472
Loans payable	5	-	372,289
		<u>187,083</u>	<u>564,761</u>
Shareholders' equity (deficit)			
Share capital	6	9,933,587	8,982,214
Common shares to be issued		-	25,000
Contributed surplus		2,553,816	2,375,883
Deficit		(12,519,647)	(11,862,974)
		<u>(32,245)</u>	<u>(479,877)</u>
		<u>154,838</u>	<u>84,884</u>

Going-concern

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Approved by the Board:

Timothy J. Turner
Director

Christian Shomber
Director

United Hunter Oil & Gas Corp.

Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

		Years ended December 31,	
		2018	2017
	Notes	\$	\$
Expenses			
Professional fees		82,380	13,685
Management fees	10	226,642	127,793
Consulting fees		64,883	15,000
Stock-based compensation	6	177,933	-
General and administrative		12,250	11,899
Public company costs		40,497	38,994
Travel		46,633	28,731
Foreign exchange loss (gain)		5,455	(4,964)
Interest		-	22,123
		<u>656,674</u>	<u>253,260</u>
Loss		(656,674)	(253,260)
Other comprehensive income			
Foreign currency translation gain		-	1,363
Comprehensive loss		<u>(656,674)</u>	<u>(251,897)</u>
Basic and diluted loss per share		<u>(0.04)</u>	<u>(0.02)</u>
Weighted average number of shares			
outstanding - basic and diluted		<u>16,990,367</u>	<u>13,089,150</u>

United Hunter Oil & Gas Corp.
Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Share capital		Shares to be issued	Contributed surplus	Accumulated other loss	Deficit	Total
	Number of shares	Amount \$					
Balance, December 31, 2017	13,480,375	8,982,214	25,000	2,375,883	-	(11,862,974)	(479,877)
Private placements (note 6)	4,000,000	1,000,000	(25,000)	-	-	-	975,000
Share issue costs (note 6)	-	(48,627)	-	-	-	-	(48,627)
Stock-based compensation	-	-	-	177,933	-	-	177,933
Loss	-	-	-	-	-	(656,674)	(656,674)
Balance, December 31, 2018	17,480,375	9,933,587	-	2,553,816	-	(12,519,647)	(32,245)
Balance, December 31, 2016	13,060,375	8,883,214	-	2,375,883	(1,363)	(11,609,714)	(351,980)
Private placements (note 6)	420,000	105,000	25,000	-	-	-	130,000
Share issue costs (note 6)	-	(6,000)	-	-	-	-	(6,000)
Loss	-	-	-	-	-	(253,260)	(253,260)
Other comprehensive income	-	-	-	-	1,363	-	1,363
Balance, December 31, 2017	13,480,375	8,982,214	25,000	2,375,883	-	(11,862,974)	(479,877)

United Hunter Oil & Gas Corp.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

	Years ended December 31,	
	2018	2017
	\$	\$
Cash flow from operating activities		
Loss	(656,674)	(253,260)
Items not affecting cash		
Stock-based compensation	177,933	-
Foreign exchange gain		(2,434)
Interest not paid	-	22,123
Changes in non-cash working capital		
Receivables	(8,355)	(4,931)
Prepaid expenses	(11,521)	(4,294)
Accounts payable and accrued liabilities	(5,387)	124,701
	<u>(504,004)</u>	<u>(118,096)</u>
Cash flow from financing activities		
Advances of loans payable	-	77,014
Repayment of loans payable	(372,289)	(15,000)
Private placement of common shares	975,000	105,000
Common shares to be issued	-	25,000
Share issue costs	(48,627)	(6,000)
	<u>554,084</u>	<u>186,014</u>
Net change in cash	50,080	67,918
Cash, beginning of year	69,365	83
Effect of foreign exchange rate changes on cash	-	1,363
Cash, end of year	<u>119,444</u>	<u>69,364</u>
Non-cash transaction		
Common shares issued for common shares to be issued	25,000	-
Supplementary information		
Interest paid	29,925	-
Income taxes paid	-	-

United Hunter Oil & Gas Corp.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

1. Nature of operations

United Hunter Oil & Gas Corp. (the "Company") is a public company engaged in the exploration and development of oil and gas properties. The Company was incorporated under the Business Corporations Act of Ontario on February 22, 2008 and its registered office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1.

2. Going-concern

The Company is in the exploration stage and has no revenue. During the year ended December 31, 2018, the Company recorded a loss of \$656,674 (2017 - \$253,260) and as at that date, the Company had an accumulated deficit of \$12,519,647 (2017 - \$11,862,974), working capital deficit of \$32,245 (2017 - \$479,878) and cash flow deficit from operations of \$504,004 (2017 - \$118,095). The losses, accumulated deficit, working capital deficit and cash flow deficit from operations limit the Company's ability to fund its operations and the acquisition, exploration and development of oil and gas properties. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of oil and gas properties. The Company is actively seeking to raise the necessary equity financing, however, there can be no assurance that additional equity financing will be available.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, balance sheet classifications and the reported expenses that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of presentation

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee.

The financial statements were approved and authorized for issue by the Board of Directors on April 24, 2019.

Basis of measurement

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

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

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Company's 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 differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

Going concern

The Company applied judgment in assessing its ability to continue as a going concern for at least 12 months. See note 2.

Deferred income taxes

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. See note 9.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements except for IFRS 9 (see below for “Change in accounting standards”).

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary, United Hunter Texas, LLC (“UHT”) until December 29, 2017, the date that UHT was dissolved. All intercompany transactions and balances are eliminated on consolidation.

Foreign currencies

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to US dollars at the exchange rate in effect on the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of loss and comprehensive loss.

Financial instruments

Financial assets are required to be initially measured at fair value and subsequently classified at amortized cost or fair value on the basis of the Company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Company’s financial assets includes cash which is classified at amortized cost because the Company’s business model is to hold these financial instruments to maturity to collect contractual cash flows consisting solely of payments of principal and interest on the principal amount outstanding.

Financial liabilities include accounts payable and accrued liabilities and loans payable which are initially measured at fair value and subsequent classified at amortized cost.

Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. In situations where the Company issues units, the value of the warrants is included as a separate reserve of the Company’s equity.

Share-based payments

The Company offers a stock option plan for its officers, directors, employees and consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase to stock-based compensation or asset and contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase to share capital. In the event that vested stock options expire, previously recognized share-based compensation is not reversed. In the event that stock options are forfeited, previously recognized share-based compensation associated with the unvested portion of the stock options forfeited is reversed.

The fair value of share-based payment transactions to non-employees and other share-based payments including shares issued to acquire exploration and evaluation are based on the fair value of the goods and services received. If the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. No provisions were recorded as at December 31, 2018 and 2017.

Income tax

Income tax expense comprises current and deferred taxes. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted.

Change in accounting standards

IFRS 9, Financial Instruments ("IFRS 9")

This standard replaced *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

On January 1, 2018, the Company adopted IFRS 9 using a modified retrospective basis. The financial statements on that date, with any reclassifications from December 31, 2017, were as follows:

Financial instrument	Classification category		Measurement category		Carrying amount at January 1, 2018		
	Original IAS 39	New IFRS 9	Original IAS 39	New IFRS 9	Original IAS 39	New IFRS 9	Difference
Assets							
Cash	FVTPL	Amortized cost	FVTPL	Amortized cost	69,365	69,365	—
Liabilities							
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost	192,472	192,472	—
Loan payable	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost	372,289	372,289	—

New standard and interpretation not yet adopted

The following new standard will be effective for periods beginning on or after January 1, 2019:

IFRS 16, Leases (“IFRS 16”)

This standard will replace *IAS 17, Leases*. IFRS 16 provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged from IAS 17. The Company has not determined the extent of the impact of IFRS 16 on its financial statements.

5. Loans payable

	\$
Balance, December 31, 2016	290,586
Advances	77,014
Interest	22,123
Foreign exchange gain	(2,434)
Repayment	(15,000)
Balance, December 31, 2017	372,289
Repayments	(372,289)
Balance, December 31, 2018	—

	Outstanding at December 31,	
	2018	2017
	\$	\$
6% promissory notes, unsecured, due on demand	—	212,729
12% promissory notes, unsecured, due on demand	—	92,000
6% promissory note for US\$30,000, unsecured, due on March 1, 2018	—	37,440
Accrued interest	—	29,927
	—	372,089

6. Share capital

Authorized

Unlimited number of common shares without par value.

Unlimited number of preference shares, issuable in series.

Private placements of common shares

Year ended December 31, 2017

Date	Number of common shares	Price per common share \$	Gross Proceeds \$	Commissions Paid \$
November 28, 2017	280,000	0.25	70,000	—
December 6, 2017	140,000	0.25	35,000	—
	420,000		105,000	—

Year ended December 31, 2018

Date	Number of common shares	Price per common share \$	Gross Proceeds \$	Commissions Paid \$
February 6, 2018	3,004,744	0.25	751,186	2,000
March 9, 2018	995,256	0.25	248,814	3,000
	4,000,000		1,000,000	5,000

Of the private placements completed on February 6, 2018 and March 9, 2018, two officers of the Company acquired 305,244 common shares and 41,104 common shares, respectively.

At December 31, 2017, the Company had received \$25,000 in respect of a subscription agreement for 100,000 common shares that were issued on February 6, 2018.

Share consolidation

At the Annual General and Special Meeting held on April 30, 2018, the shareholders of the Company approved an amendment to the articles of the Company to consolidate the common shares by a ratio of 2.5:1. On June 6, 2018, the outstanding 43,700,957 common shares were consolidated into 17,480,375 common shares. All current and comparative year references to the number of common shares, weighted-average number of common shares outstanding, loss per share and the number and exercise price of stock options have been restated to give effect to the share consolidation.

Stock options

The Company may grant stock options to directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares. At December 31, 2018, the Company may grant up to 1,748,037 stock options (December 31, 2017 - 1,348,038). The exercise price for stock options will not be less than the market price of the common shares on the date of the grant, less any discount permissible under the rules of the TSX Venture Exchange. The maximum term for stock options will be 5 years and the options will be subject to vesting limitations imposed by the board of directors of the Company.

A summary of the Company's stock options outstanding and exercisable at December 31, 2018 is presented below:

	Weighted-average exercise price \$	Number of stock options
Balance, December 31, 2016	2.50	56,000
Expired	2.50	(14,000)
Cancelled	2.50	(14,000)
Balance, December 31, 2017	2.50	28,000
Granted	0.25	1,400,000
Cancelled	2.50	(28,000)
Balance, December 31, 2018	0.25	1,400,000

Exercise price	Expiry date	Number of stock options outstanding	Number of stock options exercisable
\$0.25	August 20, 2023	1,400,000	1,150,000

The weighted average remaining contractual life of the outstanding stock options is 4.64 years.

Grant of stock options

On August 20, 2018, the Company granted 1,400,000 stock options to directors and officers, with each stock option entitling the holder to purchase one common share for \$0.25 until August 20, 2023. A summary of the assumptions for the calculation of the fair value of those stock options using the Black-Scholes option pricing model is presented below:

Date of grant	August 20, 2018
Expiry date	August 20, 2023
Stock options granted	1,400,000
Exercise price	\$0.25
Share price	\$0.15
Risk-free interest rate	2.18%
Expected volatility based on historical volatility	191%
Expected life of stock options	5 years
Expected dividend yield	0%
Forfeiture rate	0%
Vesting	1,150,000 on date of grant and 250,000 on August 20, 2019
Fair value	\$202,000
Fair value per stock option	\$0.14

Cancellation of stock options

On August 20, 2018, the Company cancelled 28,000 stock options entitling the holder to purchase one common share for \$2.50 until November 26, 2018.

7. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-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.

Accounts payable and accrued liabilities and loans payable

The fair value of accounts payable and accrued liabilities and loans payable approximates their carrying value due to their short term to maturity.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data

The Company does not have any financial instruments measured at fair value.

8. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from the Company's cash and receivables. The maximum exposure to credit risk is equal to the carrying amount of cash and receivables. The Company's limits its exposure to credit risk on its cash by holding its cash in deposits with high credit quality Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company intends to meet its current obligations in the following year with funds to be raised through private placements, shares for debt settlements and related party loans. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The amounts for accounts payable and accrued liabilities are subject to normal trade terms. The Company's operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligation and finance the acquisition, exploration and development of oil and gas properties.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

Foreign exchange risk

Foreign exchange risk is the risk of financial loss to the Company due to a change in foreign exchange rates. The majority of the Company's cash is held in Canadian dollars. Foreign exchange risk arises as the Company makes expenditures denominated in US dollars and has cash of US\$14,065 (2017 - \$nil), accounts payable of US\$15,094 (2017 - \$nil) and loans payable plus accrued interest of US\$nil (2017 - US\$31,250).

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk. However, management of the Company believes there is no significant exposure to foreign currency fluctuations due to the limited number of transactions conducted in US dollars.

Interest rate risk

Interest rate risk is the risk of financial loss to the Company due to a change in interest rates. The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments. In addition, loans payable bore interest at fixed rates of interest.

Capital management

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's principal source of capital is from the issue of common shares and loans payable. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

9. Income taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 26.5% (2017 - 26.5%) to the net loss for the year. The reasons for the difference are as follows:

Provision for income taxes

	2018 \$	2017 \$
Expected income tax recovery based on statutory rate	(174,018)	(66,753)
Increase (decrease) resulting from:		
Permanent differences and other	34,727	24,597
Rate changes	–	(46,888)
Change in unrecognized deferred income tax assets	139,291	89,044
Deferred income tax recovery	–	–

Deferred income tax balances

The Company's deferred income tax assets are as follows:

	2018 \$	2017 \$
Equity investments	604,666	604,666
Non-capital loss carryforward	2,076,426	1,946,750
Share issue costs	11,263	1,648
	2,692,356	2,553,064
Benefit of deferred tax assets not recorded	(2,692,356)	(2,553,064)
	–	–

Due to losses incurred in the current year and expected future operating results, management determined that it is unlikely that the deferred income tax assets will be realized. Accordingly, the future income tax assets have not been recorded.

Losses carried forward

At December 31, 2018, the Company had non-capital loss carryforwards which expire as follows:

	\$
2028	60,000
2029	515,000
2030	3,751,000
2031	1,085,000
2032	194,000
2033	347,000
2034	554,000
2035	299,000
2036	285,000
2037	491,000
2038	491,000
	3,834,000

As at December 31, 2018, the Company had resource deductions of \$2,281,575 which may be carried forward indefinitely to reduce taxable income in future years.

10. Related party transactions

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

	Years ended December 31,		Outstanding at December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Management fees	226,642	127,793	71,330	141,095
Stock-based compensation	177,933	—	—	—
	<u>404,575</u>	<u>127,793</u>	<u>71,330</u>	<u>141,095</u>