Paleo Resources, Inc.
(formerly Tanager Energy Inc.)
Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

To the Shareholders of Paleo Resources, Inc. (formerly Tanager Energy Inc.):

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on management's informed judgments and estimates within the acceptable limits of materiality. Financial information contained in management's discussion and analysis is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

BDO Canada LLP, an independent firm of Chartered Professional Accountants, who were appointed by the shareholders, is responsible for auditing the financial statements and expressing their opinion thereon and their report is presented separately. The external auditors have full and free access to, and meet regularly with, management and the Audit Committee.

April 29, 2019

(signed) "Marc Rhoades"	*(signed) "Steven Vucurevich"*
Marc Rhoades	Steven Vucurevich, CPA, CA
Chief Executive Officer	Chief Financial Officer

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Independent Auditor's Report

To the Shareholders of Paleo Resources, Inc. (formerly Tanager Energy Inc.)

Opinion

We have audited the consolidated financial statements of Paleo Resources, Inc. (formerly Tanager Energy Inc.) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year 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 Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Group 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.

Other Matters

The financial statements of the Group for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on May 1, 2018.

Material Uncertainty Related to Going Concern

Without qualifying our audit opinion, we draw your attention to Note 1 in the consolidated financial statements that indicates the Group has a history of losses and an accumulated deficit of $37,181,259. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion has not been modified in respect to this uncertainty.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the *Management Discussion and Analysis*.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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 Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 IFRS, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the 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 Justin Friesen, CPA, CA.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta
April 29, 2019

Paleo Resources, Inc.
(formerly Tanager Energy Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at

	December 31, 2018 $	December 31, 2017 $
ASSETS		
Current assets		
Cash and cash equivalents	**55,640**	173,516
Accounts receivable and other assets	**117,558**	642,460
	173,198	815,976
Deposit (Note 4)	**306,473**	301,643
Exploration and evaluation assets (Note 5)	**12,007,443**	10,955,097
Property, plant and equipment (Note 6)	**3,319,398**	4,083,559
TOTAL ASSETS	**15,806,512**	16,156,275
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**1,800,134**	3,402,664
Loans payable (Note 8)	**3,841,029**	190,000
Current portion of long-term debt (Note 10)	**5,422,695**	1,246,659
	11,063,858	4,839,323
Liability component of convertible debentures (Note 9)	**-**	5,945,860
Embedded derivative related to convertible debentures (Note 9)	**-**	6,871,076
Long-term debt (Note 10)	**-**	3,739,978
Decommissioning liabilities (Note 11)	**507,095**	486,461
TOTAL LIABILITIES	**11,570,953**	21,882,698
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 12)	**37,478,962**	25,091,780
Contributed surplus	**3,634,413**	3,588,152
Accumulated other comprehensive income (loss)	**303,443**	(395,480)
Deficit	**(37,181,259)**	(34,010,875)
Total shareholders' equity (deficiency)	**4,235,559**	(5,726,423)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	**15,806,512**	16,156,275

Nature of operations and going concern (Note 1)

Approved on behalf of the Board

(signed) *"Tom M. Crain, Jr."* — President and Director

(signed) *"Chris Pettit"* — Director

The notes to the consolidated financial statements are an integral part of these statements.

Paleo Resources, Inc.
(formerly Tanager Energy Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended December 31, 2018 and 2017

	2018 $	2017 $
Revenue		
Oil and gas sales	**1,015,836**	503,629
Royalties	**(256,297)**	(124,971)
Production taxes	**(69,217)**	(15,453)
	690,322	363,205
Expenses		
Operating	**320,900**	268,028
General and administrative	**1,791,483**	1,503,394
Depletion and depreciation (Note 6)	**471,838**	158,260
Impairment (Notes 5 and 6)	**908,686**	2,591,039
Finance expenses (Note 16)	**724,180**	1,553,415
Share-based payments	**46,261**	189,215
Mining royalty and staking	**40,000**	80,000
Loss (gain) on unrealized embedded derivatives (Note 9)	**(818,338)**	4,154,986
Foreign exchange	**472,466**	(378,514)
Gain on disposition of shares (Note 10)	**-**	(38,957)
Gain on forgiveness of debt (Note 18)	**(96,770)**	-
	3,860,706	10,080,866
Net loss for the year	**(3,170,384)**	(9,717,661)
Comprehensive income (loss)		
Foreign currency translation	**698,923**	(690,233)
Gain on available for sale financial assets	**-**	39
Comprehensive loss for the year	**(2,471,461)**	(10,407,855)
Basic and diluted net loss per share (Note 17)	**(0.02)**	(0.09)
Weighted average number of common shares outstanding	**209,565,251**	110,483,569

The notes to the consolidated financial statements are an integral part of these statements.

Paleo Resources, Inc.
(formerly Tanager Energy Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
For the years ended December 31, 2018 and 2017

	2018	2017
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	**(3,170,384)**	(9,717,661)
Adjustments:		
Depletion and depreciation	**471,838**	158,260
Impairment	**908,686**	2,591,039
Accretion (Note 16)	**233,360**	906,943
Share-based payments	**46,261**	189,215
Unrealized foreign exchange	**472,466**	(395,131)
Loss (gain) on unrealized embedded derivative	**(818,338)**	4,154,986
Gain on forgiveness of debt (Note 18)	**(96,770)**	-
Decommissioning costs incurred (Note 11)	**-**	(25,426)
Changes in non-cash working capital items (Note 20)	**580,721**	151,634
Net cash used in operating activities	**(1,372,160)**	(1,986,141)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	**(4,830)**	(2,900)
Additions to exploration and evaluation assets	**(292,901)**	(5,416,771)
Additions to property, plant and equipment	**(188,031)**	(501,371)
Changes in non-cash working capital items (Note 20)	**165,586**	2,178,274
Net cash used in investing activities	**(320,176)**	(3,742,768)
CASH FLOWS FROM FINANCING ACTIVITIES		
Credit facility	**-**	4,986,637
Loans payable	**1,651,185**	-
Net cash provided by financing activities	**1,651,185**	4,986,637
Effect of changes in foreign exchange rates on cash held in foreign currencies	**(76,725)**	221,936
Net decrease in cash and cash equivalents for the period	**(117,876)**	(520,336)
Cash and cash equivalents, beginning of the period	**173,516**	693,852
Cash and cash equivalents, end of the year	**55,640**	173,516

Supplemental information		
Interest paid	**-**	678,242

Non-cash transactions (Note 20)

Paleo Resources, Inc.
(formerly Tanager Energy Inc.)
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

	Number of Shares #	Share Capital $	Contributed Surplus $	Equity Portion of Convertible Debentures $	Accumulated Other Comprehensive Income (Loss) $	Deficit $	Total Shareholders' Equity (Deficit) $
Balance, December 31, 2016	107,716,388	23,765,581	3,398,937	127,869	294,714	(24,293,214)	3,293,887
Conversion of convertible debentures	17,119,000	1,326,199	-	(127,869)	-	-	1,198,330
Foreign currency translation	-	-	-	-	(690,233)	-	(690,233)
Share-based payments	-	-	189,215	-	-	-	189,215
Gain on available for sale financial assets	-	-	-	-	39	-	39
Net loss for the year	-	-	-	-	-	(9,717,661)	(9,717,661)
Balance, December 31, 2017	**124,835,388**	**25,091,780**	**3,588,152**	**-**	**(395,480)**	**(34,010,875)**	**(5,726,423)**
Conversion of convertible debentures	110,451,428	12,387,182	-	-	-	-	12,387,182
Foreign currency translation	-	-	-	-	698,923	-	698,923
Share-based payments	-	-	46,261	-	-	-	46,261
Net loss for the year	-	-	-	-	-	(3,170,384)	(3,170,384)
Balance, December 31, 2018	**235,286,816**	**37,478,962**	**3,634,413**	**-**	**303,443**	**(37,181,259)**	**4,235,559**

The notes to the consolidated financial statements are an integral part of these statements.

1. Nature of operations and going concern

Nature of operations

Tanager Energy Inc. ("Tanager") was incorporated in 1945 and in fiscal 2013, the name of the Company was changed to "Tanager Energy Inc." In addition, on June 20, 2016 Tanager incorporated Tanager Energy (USA) Inc., a wholly-owned subsidiary. On August 6, 2018, Tanager incorporated Tanager Chalk, Inc., as wholly owned subsidiary of Tanager Energy (USA) Inc.

On March 6, 2019, Tanager continued from the Province of Alberta to the Province of British Columbia pursuant to a resolution passed by shareholders of Tanager at the annual general and special meeting held December 19, 2018. On April 11, 2019, the Company amended its articles of incorporation to change its name from Tanager Energy Inc. to Paleo Resources, Inc. (“Paleo Resources” or the “Company”). In addition, the Company’s subsidiary, Tanager Energy (USA) Inc. changed its name to Paleo Resources (USA), Inc.

Paleo Resources is an exploration company, engaged in the acquisition, exploration and development of precious and base metal properties in Ontario, Canada and oil and gas hydrocarbons in Alberta, Canada and Texas, USA. The Company's common shares are listed on the TSX Venture Exchange under the symbol PRE and on the OTCQB Venture Market in the U.S. as PRIEF. The primary office is located at 144 4th Avenue SW, Suite 1600, Calgary, AB T2P 3N4 and executive offices are located at 1980 Post Oak Blvd., Suite 1500, Houston, Texas 77056. The consolidated financial statements were approved by the Board of Directors on April 29, 2019.

Going concern

These consolidated financial statements, including comparatives, have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from December 31, 2018. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at December 31, 2018, the Company had a net loss of $3,170,384 (2017 - $9,717,661), a working capital deficiency of $10,890,660 (2017 - $3,759,968) and an accumulated deficit of $37,181,259 (2017 - $34,010,875). The Company will need additional funding in order to continue operations. While the Company has been successful in obtaining funding in the past, through the issuance of equity and non-arm’s length loans, there is no assurance that such funding will be available in the future. An inability to raise additional funds would adversely impact the future assessment of the Company as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern.

The Company is dependent upon its ability to finance its operations and oil and gas drilling programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration and evaluation assets and plant property and equipment, and, ultimately, the Company’s ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the exploration and development of the properties, and upon future profitable production or, alternatively, upon the Company’s ability to dispose of its interests in one or more assets on an advantageous basis, all of which are uncertain. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statements of financial position classifications that would be necessary if the going concern assumption was inappropriate.

Subsequent to December 31, 2018, the Company’s credit facility balance of US$3,775,000 is to be settled following the completion of US$1,000,000 in all required payments made in January to April 2019 and the pending transfer of certain common shares to a third party (Note 10).

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at December 31, 2018. These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments and share-based payment transactions that have been measured at fair value. They were prepared on a going concern basis and are presented in Canadian dollars ("CDN"), which is the functional currency of the parent entity. The functional currency of the US subsidiary is US dollars ("USD").

3. Significant accounting policies

(a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Paleo Resources (USA), Inc. The Company incorporated two wholly owned entities, Tanager Energy GP, LLC and Tanager Energy, LP on December 31, 2017 and Tanager Chalk, Inc. on August 6, 2018 and these entities are inactive to date.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand.

(c) Revenue recognition

The Company adopted IFRS 15 with a date of initial application of January 1, 2018. The Company used the full retrospective approach to adopt the new standard. The Company has reviewed its revenue streams and major contracts with customers using the IFRS 15 five-step model and there are no material changes to the timing or amounts of revenue recognized. As a result, no adjustments were required in the January 1, 2017 opening consolidated statement of financial position.

The additional disclosures required by IFRS 15, including those required by the full retrospective approach, are detailed in Note 15.

Revenue from the sale of crude oil, natural gas, and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

3. Significant accounting policies *(continued)*

Applying the five step model required by IFRS 15, Revenue from Contracts with Customers, revenue is recognized as follows for these contracts:

Step in Model	Oil and Gas Sales
Identify the contract	The contractual arrangement executed with the customers, specifying the quantity and market price.
Identify distinct performance obligations	Single performance obligation to provide crude oil and gas to the customers.
Estimate transaction price	Transaction price is based on current commodity market prices.
Allocate the transaction price to performance obligations	Total revenue is allocated to the single performance obligation.
Recognize revenue as performance obligations are satisfied	Revenue to be recognized at a point in time once control passes to the customers (i.e when product is delivered).

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Gathering fees charged to other entities for use of facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Gathering fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

(d) Joint operations

The Company conducts its exploration and development activities independently, as well as jointly with others through joint operations. All of the Company's current interests in joint arrangements are classified as joint operations. To account for these arrangements, the Company recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such joint operations.

(e) Exploration and evaluation assets

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

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

3. Significant accounting policies *(continued)*

(f) Property, plant and equipment

All costs directly associated with the development of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are charged to income as incurred.

(g) Depletion and Depreciation

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Furniture and fixtures are depreciated on a straight-line basis over periods ranging from two to five years.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated.

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill, if any, is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill. Exploration and evaluation assets are tested with the associated CGU for which the activity can be attributed or separately where an associated CGU does not exist for the exploration and evaluation activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in the consolidated statements of loss and comprehensive loss.

3. Significant accounting policies *(continued)*

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(i) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, with a corresponding accretion charge to earnings.

(j) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, 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, where appropriate, the risks specific to the liability. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(k) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in the consolidated statements of loss and comprehensive loss. Transaction costs associated with a business combination are expensed as incurred.

(l) Share-based payment transactions

The fair value of equity-settled share options granted is recognized as an expense over the vesting period with a corresponding increase in equity.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Management is required to estimate forfeitures, and revise its estimates of the number of equity-settled share options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period. Management defines forfeitures as share-based payments for which the counterparty does not fulfill the vesting conditions.

3. Significant accounting policies *(continued)*

(m) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in profit or 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 period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

(n) Loss per share

Basic earnings or loss per share is calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding for the period. Diluted earnings or loss per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options, warrants, convertible debentures and other dilutive instruments granted to employees. In the calculation of diluted per share amounts, outstanding dilutive instruments are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. The number of additional shares related to convertible debentures is calculated assuming the debentures are converted into common shares by dividing the face value of convertible debentures by the conversion price. Earnings is adjusted for interest or accretion, net of tax, related to the convertible debentures. In loss per share situations, the diluted per share amount is the same as that for basic, as all factors are anti-dilutive.

(o) Financial assets and liabilities

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model.

The adoption of this standard has no impact on the Company's financial statements on the date of adoption, or for comparative periods. There was no change in the carrying amounts recognized under IAS 39, despite the new measurement categories stipulated under IFRS 9. The Company has applied IFRS 9 retrospectively, without restatement.

All financial assets are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets.

3. Significant accounting policies *(continued)*

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions:

(i). The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
(ii). The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet condition (ii) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at fair value through other comprehensive income ("FVOCI"). All other financial assets are subsequently measured at their fair values, with changes in fair value recognized in profit or loss ("FVTPL").

There was no change to the measurement categories for financial liabilities. Financial liability classifications are all unchanged from their classifications under IAS 39.

A comparison of financial instrument classifications, pre and post adoption of IFRS 9, is as follows:

Financial Assets and Liabilities	IAS 39	IFRS 9
Cash and cash equivalents	FVTPL	Amortized cost
Accounts receivable and other assets	Loans and receivables (1)	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities (1)	Amortized cost
Loans payable	Other financial liabilities (1)	Amortized cost
Long-term debt	Other financial liabilities (1)	Amortized cost
Liability component of convertible debentures	Other financial liabilities (1)	Amortized cost
Embedded derivative related to convertible debentures	FVTPL	FVTPL

(1) These items were initially recognized at fair value inclusive of any directly attributable transaction costs. Subsequent to initial recognition, these items were measured at amortized cost using the effective interest method.

(p) Impairment of financial instruments

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial assets are tested for impairment on an individual basis. 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 cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income or loss. An impairment loss is reversed when there is objective evidence that the value of the financial asset has been partially or fully restored. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

3. Significant accounting policies (*continued)*

(q) Foreign currency translation

(i) Foreign transactions
Transactions completed in currencies other than the functional currency are reflected in Canadian dollars at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to Canadian dollars at the period-end exchange rate. Revenue and expenses are translated into Canadian dollars using the average exchange rate for the period. Both realized and unrealized foreign exchange gain or losses resulting from the settlement or translation of foreign currency transactions are included in the consolidated statements of loss and comprehensive loss.

(ii) Foreign operations
Assets and liabilities of foreign operations are translated into Canadian dollars at the period-end exchange rate. Revenues and expenses of foreign operations are translated to Canadian dollars using the average exchange rate for the period. Foreign exchange differences resulting from converting the subsidiaries' accounts from their functional currencies to the Canadian dollar, are recorded in other comprehensive income and are reclassified to the consolidated statements of loss and comprehensive loss when there has been a disposal or partial disposal of the foreign operation.

(r) Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The following are some of the areas requiring significant estimates and judgments:

Reserves Base

Proved and Probable oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well abandonment and reclamation costs and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being adjusted.

Exploration and Evaluation Costs

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make judgments about future events and circumstances and applies estimates to assess the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop the project. Level of drilling success, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures, are important judgments when making this determination.

Development Costs

Management uses judgment to determine when exploration and evaluation assets are reclassified to Property, Plant and Equipment. This decision considers several factors, including the existence of reserves, appropriate approvals from regulatory bodies and the Company's internal project approval processes.

3. Significant accounting policies *(continued)*

Decommissioning Liabilities

Decommissioning liabilities will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The ultimate costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Fair Value Estimates

Estimates are made in determining the fair value of assets and liabilities including the valuation of the Company's embedded derivative liability component related to convertible debentures. These estimates may be further based on management's best assessment of the related inputs used in valuation models, such as future cash flows and discount rates.

Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgement to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

Stock Based Compensation

The Company provides share-based awards to certain employees in the form of stock options. The Company follows the fair value method to record share-based payment expense with respect to stock options granted. The fair value of each option granted is estimated based on the date of grant and a provision for the costs is provided for with a corresponding credit to reserves in shareholders' equity over the vesting period of the option agreement. Share-based payment expense associated with options issued to employees, consultants, officers and directors of the Company are expensed. The consideration received by the Company on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in reserves in shareholders' equity. Forfeitures are estimated for each tranche, and adjusted as required to reflect actual forfeitures that have occurred in the period.

In order to record share-based payment expense, the Company estimates the fair value of share options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeitures and expected dividend yields.

Asset Impairment and Reversals

Management applies judgement in assessing the existence of impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of CGUs and individual assets is determined based on the higher of fair value less costs to sell or value-in-use calculations. The key estimates the Company applies in determining the recoverable amount normally include estimated future commodity prices, expected production volumes, future operating and development costs, discount rates, tax rates, and refining margins. In determining the recoverable amount, management may also be required to make judgments regarding the likelihood of occurrence of a future event. Changes to these estimates and judgments will affect the recoverable amounts of CGUs and individual assets and may then require a material adjustment to their related carrying value.

3. Significant accounting policies *(continued)*

Determination of Cash Generating Units ("CGUs")

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations. Management has determined that the Company has three CGUs. A Canada CGU and two United States CGUs (Woodbine formation and Yegua formation).

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(s) Upcoming Changes to US GAAP / Foreign Private Issuer Status

Under the U.S. Securities Exchange Act of 1934, a foreign private issuer ("FPI") is an entity incorporated or organized under the laws of a jurisdiction outside of the US, unless:

- more than 50% of its outstanding voting securities are directly or indirectly owned of record by US residents; and
- any of the following applies: (i) the majority of its executive officers or directors are U.S. citizens or residents; (ii) more than 50% of its assets are located in the United States; or (iii) its business is administered principally in the United States.

A company's ongoing FPI status is tested annually at the end of the most recently completed second fiscal quarter. If an issuer fails to qualify as an FPI at the end of its second fiscal quarter, it remains eligible to use the forms and rules applicable to FPIs until the end of that financial year.

As of June 30, 2018, the Company has determined that it no longer qualifies as an FPI. Therefore, the Company must transition to U.S. domestic company reporting status and become subject to SEC reporting requirements applicable to a U.S. domestic company, beginning in 2019. These reporting requirements will require that the Company's 2019 financial statements and selected financial data be recast into US GAAP and US dollar reporting currency for all periods presented, which will include the 2018 annual filings. The extent of the impact of adoption of these standards has not yet been determined. In addition, the Company will be required to file annual, quarterly and current report filing with the SEC, comply with US insider filing requirements under the Exchange Act, and follow Regulation FD for "fair disclosure" of materially non-public information through public disclosure that is broadly available to all members of the public at the same time.

4. Deposit

The deposit relates to payments to the Alberta Energy Regulator ("AER") held in trust as security deposits in connection with AER estimated net future abandonment liabilities for operated Alberta well licenses. The deposit bears interest at bank prime minus 1.95%.

(Expressed in Canadian Dollars)

5. Exploration and evaluation assets

	December 31, 2018 $	December 31, 2017 $
Balance, beginning of year	**10,955,097**	11,922,830
Additions	**292,901**	5,416,771
Impairment	**(179,774)**	(2,591,039)
Transfer to property, plant and equipment	**(26,104)**	(3,043,705)
Decommissioning liability adjustment (Note 11)	**4,879**	118,506
Foreign exchange	**960,444**	(868,266)
Balance, end of year	**12,007,443**	10,955,097

Impairment

USA:

At December 31, 2018, for its Yegua formation assets CGU in the US the Company determined that there were indicators of impairment and tested the cash-generating units for impairment. The indicators observed include that certain individual Yegua formation area leases with undeveloped acreage that have expired or are not expected to be renewed or drilled upon in the future. The Company has measured an impairment of $179,774 based upon the carrying value of those individual area leases.

As at October 1, 2017, the Company determined that its Yegua formation assets CGU met the criteria for technical feasibility and commercial viability. Accordingly, the Company conducted an impairment test of the carrying value at the transfer date and recorded an impairment charge of $2,591,039. The recoverable amount of the CGU was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a post-tax discount rate of 10% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserve engineer for the Company's proved plus probable reserves.

The following forward prices were used to determine the recoverable amount under the impairment test in 2017:

Year	**Crude oil (US$/bbl)**	Natural gas (US$/mcf)
2018	63.14	3.18
2019	58.41	3.32
2020	55.17	3.56
2021	53.25	3.73
2022	52.32	3.90

(Expressed in Canadian Dollars)

6. Property, plant and equipment

Years ended December 31,	**December 31, 2018**	December 31, 2017
Oil and gas properties	**$**	$
Cost		
Balance, beginning of year	**4,294,467**	822,172
Additions	**188,031**	526,797
Transfer from exploration and evaluation assets	**26,104**	3,043,705
Decommissioning liability adjustments (Note 11)	**(6,618)**	(47,122)
Foreign exchange	**322,410**	(51,085)
Balance, end of year	**4,824,394**	4,294,467
Accumulated depletion and depreciation		
Balance, beginning of year	**210,908**	54,495
Depletion and depreciation	**471,838**	158,260
Impairment provision	**728,912**	-
Foreign exchange	**93,338**	(1,847)
Balance, end of year	**1,504,996**	210,908
Net book value	**3,319,398**	4,083,559

Depletion

As at December 31, 2018, $934,000 and $775,000 of future development costs have been added to the respective USA and Canada cost bases for depletion calculation purposes (2017 - $577,000 and $775,000).

Impairment

At December 31, 2018, for its Yegua formation assets CGU in the US and the Canada CGU the Company determined that there were indicators of impairment and tested the cash-generating units for impairment. The indicators observed include a downward technical revision in the reserve volumes of the Company in each CGU as a result of production decline rates, as well as a decrease in crude oil prices in Canada and a minor decrease in the natural gas price forecast in the US.

USA:

The recoverable amount of the Yegua assets formation CGU in the US was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of the fair value less costs to sell was determined using a discount rate of 12% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserve engineer for the Company's proved plus probable reserves. Accordingly, the Company conducted an impairment test of the carrying value at December 31, 2018 and recorded an impairment charge of $728,912.

Canada:

The recoverable amount of the Joffre assets formation CGU in Canada was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of the fair value less costs to sell was determined using a discount rate of 12.5% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserve engineer for the Company's proved plus probable reserves. As a result of performing the impairment test, the Company has concluded that there was no impairment of its Canadian oil and gas properties at December 31, 2018.

(Expressed in Canadian Dollars)

6. Property, plant and equipment *(continued)*

The following forward prices were used to determine the recoverable amount under the impairment tests in 2018:

Year	Edmonton Crude Oil ($/bbl)	WTI Crude Oil (US$/bbl)	AECO Natural Gas ($/mcf)	NYMEX Natural Gas (US$/mcf)	CDN$ to US$ Exchange Rates
2019	65.80	58.00	1.75	3.00	0.76
2020	72.45	61.20	2.20	3.15	0.76
2021	78.35	64.50	2.50	3.45	0.77
2022	81.95	69.00	2.80	3.60	0.79
2023	89.30	75.75	3.20	3.85	0.80
2024	91.10	77.30	3.55	4.15	0.80
2025	92.90	78.85	3.85	4.40	0.80
2026	94.75	80.40	3.95	4.55	0.80
2027	96.65	82.00	4.10	4.70	0.80
2028	98.60	83.65	4.20	4.80	0.80
Thereafter	+2% per year	+2% per year	+2% per year	+2% per year	-

Based upon Deloitte price forecasts effective December 31, 2018.

7. Accounts payable and accrued liabilities

	2018	2017
	$	$
Accounts payable and other liabilities	**1,113,484**	834,059
Accounts payable to related parties	**686,650**	2,568,605
	1,800,134	3,402,664

As at December 31, 2018, the accounts payable to related parties includes interest accrued of $306,991 (2017 - $179,422) on convertible debentures held by a director of the Company and a trust (the “Trust”), interest accrued of $51,927 (2017 - $Nil) due on loans payable to a joint venture partner and its subsidiary (Note 8), and $327,732 (2017 - $2,389,183) due to a joint venture partner (Note 18). The debenture holders of the USD$6,000,000 CD-2 debentures had agreed to delay the monthly interest payments since October 2017. The CD-1 and CD-2 convertible debentures were converted into common shares of the Company on November 3, 2017 and March 27, 2018, respectively.

8. Loans payable

	2018	2017
	$	$
Loan from joint venture partner	**-**	190,000
Loan from third-party lender	**545,680**	-
Promissory note from US JV Partner	**2,381,335**	-
Loan from subsidiary of US JV Partner	**914,014**	-
	3,841,029	190,000

The loan from the third-party joint venture partner was non-interest bearing, unsecured and due on demand. In connection with an agreement that closed October 1, 2018, the Company and the third-party joint venture partner agreed that all net balances owing to or from each other would be forgiven (Note 18).

8. Loans payable *(continued)*

The loan from a third-party lender is unsecured and bears interest at 6% per annum. This loan matured and was originally due and payable, along with accrued interest, on June 26, 2018. The loan was amended subsequent to December 31, 2018.

On April 11, 2019, the Company entered into a loan amendment with the third-party lender which extends the maturity date to December 1, 2019. The repayment of the loan shall be as follows: a) if the Company is successful in raising additional capital of at least USD$3,500,000 on or before August 1, 2019, then the Company shall pay in full the balance of outstanding principal and accrued interest on or before August 10, 2019; or if the Company is unable to close a transaction to raise additional capital of USD$3,500,000 by August 1, 2019, then the Company shall begin making monthly principal payments of USD$50,000 each beginning on August 1, 2019 and the balance of the outstanding principal and accrued interest shall be due in full on December 1, 2019. The US JV Partner has agreed to provide a guarantee of USD$400,000 in the event the Company fails to make the payment in part a) above and shall guarantee any monthly principal payments the Company fails to make in part b) above to a maximum of USD$400,000.

In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of USD$1,745,591 (or an equivalent of CDN $2,381,335) into a promissory note. In addition, the Company entered into a loan from a wholly-owned subsidiary of the US JV Partner for a total available amount of USD$1,250,000. As of December 31, 2018, a total of USD$670,000 (or an equivalent of CDN $914,014) was drawn under this loan. Each of these loans are guaranteed by the Company, shall be repaid on demand, provided that if no demand is made, the loans are due on September 1, 2020, bear interest at a rate of 0.5% above the Wall Street Journal prime rate, and are secured against all of the Company's US subsidiary oil and gas properties in Texas.

9. Convertible debentures

CD-1: On May 3, 2016, the Company completed a non-brokered private placement offering of 10% secured convertible debentures in the principal amount of CDN$1,198,330. The debentures bear interest at a rate of ten percent (10%) per annum, calculated and payable monthly and had a maturity date of May 3, 2017. The debentures are secured against all of the real and personal property of the Corporation with the principal convertible at the holder's option at any time and prior to maturity into common shares of the Corporation at a conversion price of CDN$0.07 per common share. All securities issued in connection with the debenture offering were subject to a hold period that expired on September 4, 2016.

The Company determined that CD-1 debentures meet the definition of a compound financial instrument and determined the fair value of the liability by discounting the expected future cash flows of the convertible debenture using an interest rate of 25% representing management's estimate of the fair value interest rate for a similar instrument without the convertibility feature. The residual value was allocated to equity.

In April 2017, the Company and the debenture holders of CD-1 have amended the debenture agreement and agreed to extend the maturity date of these debentures from May 3, 2017 to August 3, 2017. Further in August 2017, the Company and the debenture holders of CD-1 amended the debenture agreement and agreed to extend the maturity date of these debentures from August 3, 2017 to November 3, 2017. Effective November 3, 2017, the CD-1 debentures were converted into 17,119,000 common shares of the Company (Note 12).

CD-2: On June 27, 2016, the Company issued the June debentures in the aggregate amount of US$6,000,000 (CDN$7,846,800) as partial purchase price consideration for the acquisition of assets in Texas, USA.

The CD-2 debentures bear interest at a rate of six percent (6%) per annum, calculated and payable monthly and will mature on June 27, 2019. The June debentures are secured against all of the real and personal property of the Corporation and the principal amount is convertible at any time after June 27, 2017 and prior to maturity at the holder's option into common shares of the Company ("Common Shares") at a conversion price of CDN$0.07 per common share.

(Expressed in Canadian Dollars)

9. Convertible debentures *(continued)*

The CD-2 debentures are denominated in a currency other than the Company's functional currency. As a result the conversion feature is treated as a derivative liability and its fair value is estimated at each financial position date with any changes recognized in earnings.

The fair value of the liability component of the convertible debentures was determined by discounting the expected future cash flows of the convertible debenture using an interest rate of 25%. The liability component is accreted over the respective term to the principal value on maturity date and a corresponding non-cash accretion charge to profit or loss. The fair value of the embedded derivative component is adjusted to fair value at each financial position date.

On March 27, 2018, the CD-2 debentures were converted into 110,451,428 common shares of the Company (Note 12).

The fair value of the conversion feature was determined using a Black-Scholes option pricing model and the following assumptions as of immediately before conversion on March 27, 2018: (a) a CDN/US exchange rate of 1.2886, (b) dividend yield of 0%, (c) expected volatility of 134%, (d) risk free rate of 2.26%, (e) an expected life of 1.25 years, and (f) a share price of $0.09/share.

The movement in the Company's convertible debentures is as follows:

Liability portion of convertible debentures	**CD-1**	**CD-2**	**Total**
	$	**$**	**$**
Principal of convertible debenture issuance	1,198,330	7,846,800	9,045,130
Less: Issue costs	(45,436)	(20,000)	(65,436)
Less: Equity and derivative liability component	(127,869)	(2,814,869)	(2,942,738)
Fair value of liability component on initial recognition	1,025,025	5,011,931	6,036,956
Accretion expense	100,573	358,053	458,626
Foreign exchange	-	140,491	140,491
Balance, December 31, 2016	1,125,598	5,510,475	6,636,073
Accretion expense	72,732	824,987	897,719
Foreign exchange	-	(389,602)	(389,602)
Conversion to common shares	(1,198,330)	-	(1,198,330)
Balance, December 31, 2017	-	5,945,860	5,945,860
Accretion expense	-	222,301	222,301
Foreign exchange	-	166,283	166,283
Conversion to common shares	-	(6,334,444)	(6,334,444)
Balance, December 31, 2018	-	-	-

(Expressed in Canadian Dollars)

9. Convertible debentures *(continued)*

Embedded derivative related to convertible debentures	**CD-1**	**CD-2**	**Total**
Fair value of derivative liability component on initial recognition	-	2,814,869	2,814,869
Derivative gain on revaluation	-	(98,779)	(98,779)
Balance, December 31, 2016	-	2,716,090	2,716,090
Derivative loss on revaluation	-	4,154,986	4,154,986
Balance, December 31, 2017	**-**	6,871,076	6,871,076
Derivative gain on revaluation	**-**	(818,338)	(818,338)
Conversion to common shares	**-**	(6,052,738)	(6,052,738)
Balance, December 31, 2018	**-**	**-**	**-**

Equity	**CD-1**	**CD-2**	**Total**
	$	**$**	**$**
Equity component initially recognized	127,869	-	127,869
Balance, December 31, 2016	127,869	-	127,869
Conversion to common shares	(127,869)	-	(127,869)
Balance, December 31, 2017	-	-	-

10. Long-term debt

	December 31, 2018	December 31, 2017
	$	$
Credit Facility	**5,149,855**	4,735,737
Note payable	**272,840**	250,900
Balance, December 31, 2017	**5,422,695**	4,986,637
Less: current portion	**(5,422,695)**	(1,246,659)
Long-term portion	**-**	3,739,978

Credit Facility

On December 14, 2016 and in connection with an equity offering, the Company entered into a line of credit agreement (the "Credit Facility") with ACH Management, LLC, an arm's length third party private corporation ("ACH" or the "Lender") for USD$8,000,000. The Credit Facility may be drawn at the option of the Company during the period ended December 14, 2017. The Credit Facility matures on December 14, 2019. Funds advanced under the Credit Facility bear interest at a rate of 6% per annum, payable monthly. The Credit Facility is secured by a first lien on the Company's Texas properties. The obligations of the Company under the Credit Facility are also guaranteed by the Company's wholly owned US subsidiary pursuant to an unconditional secured guarantee. The Lender and the holders of the outstanding debentures and notes of the Company have entered into an intercreditor agreement that provides that such creditors will rank on a *pari passu* basis (only with respect to those specific creditors) in the event of any enforcement on any assets of the Company, provided that the Lender will have a first priority claim on certain property of the Company and its US subsidiary.

As of December 31, 2018, the Company has drawn an aggregate of USD$3,775,000 (2017 – USD$3,775,000), or an equivalent of CDN $5,149,855 (2017 – CDN $4,735,737), on the Credit Facility.

10. Long-term debt *(continued)*

Following the failure of the Lender to timely fund loan draw advances, the Company and Lender agreed to amendments of the Credit facility on July 27, 2017 and September 27, 2017 (the "Amendments"). Pursuant to the terms of the Amendments:

1) The Credit Facility availability end date was extended from December 14, 2017 to June 17, 2018 and the remaining US$4,225,000 available under the line of credit was agreed to be advanced by the Lender in varying scheduled amounts from October 3, 2017 through to December 5, 2017. The extension of the Credit Facility availability end date, in conjunction with the receipt of timely funding of the remaining US$4,225,000 from the Lender as of September 27, 2017, also extends the date that a minimum of twelve (12) wells in Polk County, Texas must be drilled and completed in the Yegua formation from December 31, 2017 to June 17, 2018. Monthly principal payments shall commence on the Credit Facility starting on the month after the Credit Facility availability date or July 2018.
2) The Lender has granted the Company options to purchase certain interests in oil and gas properties, subject to entering into formal documentation.
3) The Lender entered into a subordination agreement ("the ACH Subordination Agreement") pursuant to which it has agreed to subordinate all of its rights in all collateral securing the loan under the Credit Facility and its right to repayment, to a future senior lender of the Company to be determined by the Company in its sole discretion. As reflected above, this subordination has become effective and no repayments under the Credit Facility are currently due by the Company to the Lender.
4) All interest accrued and payable under the Credit facility from inception until September 27, 2017 has been waived. Interest shall commence on the Credit facility from September 28, 2017 forward.

   After September 27, 2017 and through December 31, 2018, the Lender did not provide any further loan advances pursuant to the Amendments.

   The Amendments also include further remedies available to the Company due to the default of the Lender, which the Company is considering pursuing. Pursuant to the July 27, 2017 amendment, the Lender was restricted from exercising, selling, transferring or assigning all common share purchase warrants held by the Lender. Pursuant to the September 27, 2017 amendment, the Lender agreed that up to 12,337,500 common shares of the Company held by the Lender would be available for repurchase or sale to a third party (with the proceeds being paid to the Company), and in that regard are currently held in escrow until completion of such repurchase or sale. In the event of a repurchase and cancellation of such shares by the Company, the purchase price of $0.10 per share would be deemed to be a further loan advance under the Credit Facility. During the fourth quarter of 2017, the Company sold 383,190 common shares to a third party for US$30,000 (or an equivalent of CDN $38,957) which was recognized as a gain on disposition of shares on the 2017 consolidated statements of loss. In addition, as of September 27, 2017, all common share purchase warrants held by the Lender (Note 13) are available to be cancelled or transferred to third parties at the discretion of the Company.

Litigation and Mediated Settlement Agreement

On April 18, 2018, William E. Robinson, Jr. (the "Plaintiff") filed a claim against the Company's lender ACH Management, LLC ("ACH"), the Company, and its wholly owned subsidiary, Tanager Energy (USA) Inc., as defendants, in a Dallas, Texas state court. ACH was also a shareholder in the Company. The Company filed an answer, affirmative defenses and counterclaims against the Plaintiff, and cross-claims against ACH.

A mediation among the parties occurred resulting in the execution of a Mediated Settlement Agreement (the "Agreement") dated December 11, 2018 setting forth a binding agreement among William E. Robinson, Jr., ACH Management, LLC, Tanager Energy Inc., and Tanager Energy (USA) Inc. (collectively the "Parties").

Pursuant to the Agreement, the Company is to pay to the Plaintiff in the total amount of US$1,000,000, to be paid in equal installments over 4 months on dates from January 15 through April 15, 2019. After the final US$250,000 payment to the Plaintiff made was by the Company on April 12, 2019, the Company owes no more money to any of the Parties for any reason. Also, after final payment, with respect to the securities of the Company currently held by ACH, 9,765,000 common shares are in the process of being transferred from ACH to the Plaintiff, and the remaining 10,851,810 common shares and 21,000,000 common share purchase warrants shall be cancelled, transferred or assigned as directed by the Company at a future date.

(Expressed in Canadian Dollars)

10. Long-term debt *(continued)*

Given the timely completion of the final payment and upon the pending transfer of the shares to the Plaintiff, the existing lawsuit against the Company and its subsidiary is in the process of being dismissed with prejudice. Then all the outstanding loan principal of US$3,775,000 and accrued interest shall be forgiven and there shall be no further obligations under the credit facility.

Loan Payable

In November 2017, the Company received a loan payable of US$200,000 (or an equivalent of CDN $272,840 (2017 – CDN $250,900)) as of December 31, 2018 from an arm's length third party individual. Pursuant to the terms of the loan, the loan is unsecured and bears interest at 6% per annum. Monthly principal payments on the loan were to commence in July 2018 and the loan shall mature and the remaining principal shall be due and payable on December 31, 2019.

On March 25, 2019, the Company entered into a new loan agreement with the same arm's length third party individual extending the maturity date of the loan to December 31, 2020 with the USD$200,000 outstanding principal and all accrued interest due at that date.

11. Decommissioning liabilities

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas properties:

	December 31, 2018	December 31, 2017
	$	$
Balance, beginning of year	**486,461**	411,188
Additions	**-**	124,747
Accretion	**11,059**	9,224
Change in estimate	**(1,739)**	(27,937)
Decommissioning costs incurred	**-**	(25,426)
Foreign exchange	**11,314**	(5,335)
Balance, end of year	**507,095**	486,461

At December 31, 2018, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities to be approximately $685,000 (2017 - $582,000) which will be incurred between 2020 and 2042. A risk-free rate between 1.93% and 2.87% (2017: 1.94% and 2.38%) and an inflation rate of 2.0% (2017: 2.0%) were used to calculate the fair value of the decommissioning liabilities as at December 31, 2018.

12. Share capital

(a) Authorized share capital

The authorized share capital consists of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) Common shares issued

The change in issued share capital is as follows:

	Number of common shares	**Amount $**
Balance, December 31, 2016	**107,716,388**	**23,765,581**
Conversion of convertible debentures (i)	17,119,000	1,326,199
Balance, December 31, 2017	**124,835,388**	**25,091,780**
Conversion of convertible debentures (ii)	110,451,428	12,387,182
Balance, December 31, 2018	**235,286,816**	**37,478,962**

(Expressed in Canadian Dollars)

12. Share capital *(continued)*

(i) The outstanding CD-1 convertible debentures in the aggregate principal amount of $1,198,330 due on November 3, 2017, were converted by the holders at a conversion price of $0.07 per share, into an aggregate of 17,119,000 common shares of the Company. On conversion, the amount of the fully amortized liability component of the debentures of $1,198,330 and the original equity component of $127,869 have been derecognized, and a total of $1,326,199 has been recognized as an increase to share capital.

(ii) On March 27, 2018, the outstanding CD-2 convertible debentures in the aggregate principal amount of US$6,000,000 (Note 9) due on June 27, 2019, have been converted by the holders at a conversion price of CDN$0.07 per share, into an aggregate of 110,451,428 Common Shares of the Company. On conversion, the amount of the amortized liability component of $6,334,444 and the fair value of the derivative component of $6,052,738 have been derecognized, and a total of $12,387,182 has been recognized as an increase to share capital.

13. Warrants

On December 14, 2016 and December 22, 2016, the Company completed the closing of two separate tranches of a non-brokered private placement of 16,000,000 and 5,000,000 units (“Units”), respectively, or a total of 21,000,000 Units. Each Unit consisted of one common share of the Company and one common share purchase warrant (“Warrant”), with each Warrant entitling the holder thereof to purchase one additional common share at a price of $0.10 per common share until the date that is twenty months from the respective closing date until the date and $0.12 per common share for the period from twenty months from the respective closing date until the date that is thirty-two months from the respective closing date. All 21,000,000 common share purchase warrants remain outstanding as of December 31, 2018 and are available to be cancelled or transferred to third parties at the discretion of the Company pursuant to the lawsuit settlement (Note 10).

14. Stock options

The Company has a Stock Option Plan (the "Plan") to provide incentive for the directors, officers, employees, consultants and service providers of the Company. The total number of options granted to any one individual in any 12 month period, will not exceed 5% of the issued common shares of the Company.

Under the Plan, options may be granted to directors, officers, key employees and consultants of the Company. The Plan is a "rolling" stock option plan reserving for issuance upon the exercise of options granted pursuant to the plan a maximum of 10% of the issued and outstanding shares of the Company at any time, less any shares required to be reserved with respect to options granted by the Company prior to the implementation of the Plan.

Under TSX Venture Exchange policies, a "rolling" stock option plan which sets the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares at the time of the grant must be approved and ratified by shareholders on an annual basis.

The following table reflects the continuity of stock options for the years ended December 31, 2018 and 2017:

	Number of Options	**Weighted average exercise price ($)**
Outstanding December 31, 2016	-	-
Granted	2,000,000	0.15
Outstanding December 31, 2017 and 2018	2,000,000	0.15

On April 6, 2017, the Company granted 2,000,000 stock options to directors and officers of the Company with an exercise price of $0.15 and an expiry date of April 6, 2022. These stock options vest, as to 50%, on the grant date, as to 25%, on each of the first and second anniversaries of the grant date.

(Expressed in Canadian Dollars)

14. Stock options *(continued)*

The Black-Scholes option pricing model, with the following assumptions, were used to fair value the 2017 options granted:

Risk free rate	1.06%
Expected life	5 years
Expected volatility	125%
Expected dividend	-
Forfeiture rate	0%
Fair value of option	$0.12

15. Revenue

The Company sells its production pursuant to variable price contracts entered into by the Company's operator or contract operator of its joint operations. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, natural gas, and NGLs to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price.

Currently, all of the Company's crude oil, natural gas and NGLs is sold on the Company's behalf at spot prices received by the operator or contract operator of the Company's joint operations. Gathering fees charged to third parties are earned under multi-year contracts at fixed fees by volume.

The following table provides a summary of the Company's revenue disaggregated by revenue source for the years ended December 31, 2018 and 2017:

	2018	2017
	$	$
Crude oil	**155,855**	213,491
Natural gas liquids	**15,926**	28,672
Natural gas	**841,905**	256,775
Petroleum and natural gas sales	**1,013,686**	498,938
Other income (1)	**2,150**	4,691
Total revenue	**1,015,836**	503,629

(1) Other income primarily consists of gathering fee income and sulfur sales.

16. Finance expenses

	For the years ended December 31,	
	2017	2016
	$	$
Interest expense (1)	**490,820**	646,472
Accretion on convertible debentures (Note 10)	**222,301**	897,719
Accretion on decommissioning liabilities (Note 12)	**11,059**	9,224
	724,180	1,553,415

(1) Interest expense for the year ended December 31, 2018 includes $105,156 (2017 – $566,428) of interest on convertible debentures, and $385,664 (2017 - $80,044) of interest accrued on Loans Payable and the Credit Facility.

17. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2018 was based on the loss attributable to common shareholders of $3,174,384 (2017 – $9,717,661) and the weighted average number of common shares outstanding of 209,565,251 (2017 – 110,483,569). In calculating diluted weighted average number of common shares outstanding for year ended December 31, 2018, the Company excluded 2,000,000 outstanding options (2017 – 2,000,000), 21,000,000 (2017 – 21,000,000) warrants and nil (2017 – 107,528,572) shares issuable on conversion of convertible debentures because they were anti-dilutive. The shares issuable on conversion of convertible debentures at December 31, 2017 were calculated based upon a conversion price of $0.07/share and a CDN/US exchange rate of 1.2545 for the US dollar denominated debentures.

18. Related party transactions

Related parties include the Board of Directors, senior management and enterprises that are controlled by these individuals. Related party transactions are conducted in the normal course of operations under normal market conditions and terms. The following transactions were entered into with related parties during the years ended December, 2018 and 2017:

(a) A director of the Company provided $946,050 of the total $1,198,330 principal of the Canadian dollar convertible debenture financing raised in May 2016 and US$3,000,000 of the total US$6,000,000 principal of the US dollar convertible debenture financing raised in June 2016. In addition, another director acts as trustee of a Trust which provided the remaining US$3,000,000 of the US dollar convertible debenture financing raised in 2016. The Company incurred 10% coupon interest on the Canadian dollar debentures and 6% coupon interest on the US dollar denominated debentures. During the year ended December 31, 2018, a total of $52,578 (2017 - $313,648) and $52,578 (2017 - $234,526) coupon interest was incurred on the portion of these convertible debentures held by the director and the Trust, respectively. Total accrued interest payable to the director and the Trust as of December 31, 2018, 2018 was $306,991 (2017 – 179,422) and is included in accounts payable and other liabilities. The Canadian dollar convertible debenture was converted by the director effective November 3, 2017 into 13,515,000 common shares of the Company. On March 27, 2018, the US dollar denominated debentures were converted into 110,451,428 Common Shares of the Company.

(b) The Company conducts all of U.S. operations with one joint venture partner (the “US JV Partner”). The US JV Partner is owned by a director of the Company and a Trust controlled by another director in his capacity as trustee of the Trust. The US JV Partner is considered a related party for accounting purposes by virtue of a common director and that the ownership group of the US JV Partner also holds 123,966,428 common shares of the Company, representing an ownership of 52.69% of the Company. The results of the Company’s US operations conducted with the US JV Partner are shown in the segmented financial information in Note 23. In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of US$1,745,591 into a promissory note. In addition, the Company entered into a loan from a wholly-owned subsidiary of the US JV Partner for a total available amount of US$1,250,000. For further details, refer to Note 8. Each of these loans bear interest at a rate of 0.5% above the Wall Street Journal prime rate. During the year ended December 31, 2018, a total of $49,012 (2017 - $nil) interest was accrued on both of these loans. Included in accounts payable at December 31, 2018 is $379,659 (2017 - $2,389,183) owing to the US JV Partner and its subsidiary.

(Expressed in Canadian Dollars)

18. Related party transactions *(continued)*

(c) Key management personnel include the Company's senior management and all the Company's directors. The Company recorded the following amounts in its Financial Statements relating to key management personnel compensation:

	2018	2017
	$	$
Short term benefits	**432,584**	458,655
Share-based payments	**46,261**	189,215
	478,845	647,870

(d) In October 2018, the US JV Partner acquired interest in the Joffre, Alberta D-3 B oil pool assets from the Company's former JV partner for $300,000 payable in cash. Pursuant to the terms of the agreement with the former JV partner, it was agreed that all net balances owing to or from the Company would be settled for no further consideration. As a result, in the fourth quarter of 2018 the Company reduced its accounts receivable, accounts payable and extinguished the $190,000 loan payable to the former JV partner (Note 8) and recorded the $96,770 difference to a gain on settlement on the Consolidated Statements of Loss and Comprehensive Loss.

19. Income taxes

Income taxes recorded differ from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 27% (2017 - 27%). The reasons for the differences are as follows:

	2018	2017
	$	$
Loss before taxes	**(3,170,384)**	(9,717,661)
Computed expected Income tax recovery	**(856,003)**	(2,623,769)
Share-based payments	**12,490**	51,088
Change in tax rates	**131,532**	237,337
Convertible debentures and other	**(144,497)**	1,169,368
Deferred tax benefits not recognized	**856,478**	1,165,976
	-	-

The unrecognized deductible temporary differences at December 31 were as follows:

	2018	2017
	$	$
Non-capital losses carried forward (Canada)	**7,621,629**	6,396,729
Net-operating losses carried forward (USA)	**8,480,886**	5,886,051
Share issue costs	**83,134**	124,758
Tax pools in excess of accounting basis	**17,885,472**	17,530,326
	34,071,121	29,937,864

The Company has $7,621,629 in non-capital losses in Canada which expire between 2026 and 2038. The Company has net operating losses for income tax purposes in the U.S. of US$6,216,747 (2017 – $4,691,950) which expire by 2038.

(Expressed in Canadian Dollars)

20. Changes in non-cash working capital

	2018	2017
	$	$
Changes in non-cash working capital items:		
Accounts receivable and other assets	**152,053**	(256,918)
Accounts payable and accrued liabilities	**594,254**	2,586,826
	746,307	2,329,908
Changes related to:		
Operating activities	**580,721**	151,634
Investing activities	**165,586**	2,178,274
	746,307	2,329,908

21. Capital risk management

The Company manages its capital to ensure that funds are available or are scheduled to be raised to provide adequate funds to carry out the Company's defined exploration programs and to meet its ongoing administrative costs. The Company considers its capital to be equity, which comprises share capital, contributed surplus, accumulated other comprehensive loss and deficit, which at December 31, 2018, totaled $4,127,257 equity (2017 - $5,726,423 shareholders' deficiency).

Capital management is achieved by the Board of Directors' review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other fund raisings.

The Company is not subject to any material externally imposed capital requirements or covenants, except as disclosed in Note 24.

Management reviews its approach to capital management on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

22. Financial risk management

Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate and commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with select major Canadian chartered banks and a major US bank, from which management believes the risk of loss to be minimal.

Financial instruments included in accounts receivable consist of sales tax receivable from government authorities in Canada and trade and accrued accounts receivables from industry partners. There are no past due receivables from industry partners that are considered impaired. Accounts receivable are in good standing and management believes that the credit risk with respect to financial instruments included in accounts receivable is minimal.

22. Financial risk management *(continued)*

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company.

The Company generates cash flow primarily from its financing activities. As at December 31, 2018, the Company had cash and cash equivalents of $55,640 (2017 - $173,516) to settle current liabilities of $11,063,858 (2017 - $4,839,323). Current liabilities include $3,981,999 (2017 - $2,568,605) of amounts due to related parties (Notes 7 and 8). Subsequent to December 31, 2018, the Company’s credit facility balance of US$3,775,000 is to be settled following the completion of US$1,000,000 in all required payments made in January to April 2019 and the pending transfer of certain common shares to a third party (Note 10). All of the Company's financial liabilities have contractual maturities one year or less and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

(iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks and major US banks. The credit facility and certain loans payable are at fixed rates and not subject to rate fluctuations. There are two related party loans (Note 8) that bear interest at a floating rate of interest. The Company regularly monitors compliance to its cash management policy.

(b) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar. The Company operates in the US and is exposed to foreign exchange risk. As at December 31, 2018, the Company is exposed to foreign currency risk though the following assets and liabilities denominated in US dollars:

	US Dollars ($)
Cash and cash equivalents	47,408
Accounts payable	(802,902)
Loans payable	(2,815,591)
Long-term debt	(3,975,000)
	(7,546,085)

Based on the above net exposures as at December 31, 2018 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase or decrease of approximately $1,029,000 (2017 - $1,500,000) in the Company’s comprehensive income for the year.

22. Financial risk management *(continued)*

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices of securities held by the Company (Note 4) or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Due to its limited current production, a 5% change in the price of oil would have minimal effect on the reported net loss.

(iv) Economic dependence

Revenue received from one contract operator and from the US JV Partner represented 18% (2017 - 49%) and 82% (2017 - 48%), respectively, of the total revenue during the year ended December 31, 2018.

(Expressed in Canadian Dollars)

23. Segmented financial information

The Company's reportable segments are determined based on its geographic locations. Canada includes the exploration for, and development and production of, crude oil and natural gas in Alberta, Canada and the acquisition, exploration and development of precious and base metal properties in Ontario, Canada. U.S. includes the exploration for, and the development and production of, crude oil and natural gas in Texas, USA. Corporate includes corporate activities and items not allocated between operating segments.

For the year ended December 31, 2018

	Canada	U.S.	Corporate	**Consolidated**
	$	$	$	**$**
REVENUES, NET OF ROYALTIES AND PRODUCTION TAXES	148,623	541,699	-	**690,322**
EXPENSES				
Operating	175,271	145,629	-	**320,900**
General and administrative	-	-	1,791,483	**1,791,483**
Depletion and depreciation	11,066	460,772	-	**471,838**
Impairment	108,302	908,686	-	**1,016,988**
Finance expenses	-	-	724,180	**724,180**
Share-based payments	-	-	46,261	**46,261**
Mining royalty and staking	40,000	-	-	**40,000**
Gain on unrealized embedded derivative	-	-	(818,338)	**(818,338)**
Gain on forgiveness of debt	(96,770)	-	-	**(96,770)**
Foreign exchange	-	-	472,466	**472,466**
TOTAL EXPENSES	237,869	1,515,087	2,216,052	**3,969,008**
Net loss for the period	(89,246)	(973,388)	(2,216,052)	**(3,278,686)**
Exploration & evaluation asset expenditures				
Additions	-	292,901	-	**292,901**
Decommissioning liability adjustments	-	4,879	-	**4,879**
Foreign currency translation	-	960,444	-	**960,444**
	-	1,258,224	-	**1,258,224**
Property, plant & equipment expenditures				
Additions	5,315	182,716	-	**188,031**
Decommissioning liability adjustments	(19,208)	12,590	-	**(6,618)**
Foreign currency translation	-	229,072	-	**229,072**
	(13,893)	424,378	-	**410,485**

As at December 31, 2018

Canadian assets	963,326	-	-	**963,326**
U.S. assets	-	14,734,884	-	**14,734,884**
Corporate assets	-	-	-	**-**
	963,326	14,734,884	-	**15,698,210**

(Expressed in Canadian Dollars)

23. Segmented financial information *(continued)*

For the year ended December 31, 2017	Canada	U.S.	Corporate	**Consolidated**
	$	$	$	**$**
REVENUES, NET OF ROYALTIES AND PRODUCTION TAXES	213,098	150,107	-	**363,205**
EXPENSES				
Operating	238,329	29,699	-	**268,028**
General and administrative	-	-	1,503,394	**1,503,394**
Depletion and depreciation	18,323	139,937	-	**158,260**
Impairment	-	2,591,039	-	**2,591,039**
Finance expenses	-	-	1,553,415	**1,553,415**
Share-based payments	-	-	189,215	**189,215**
Mining royalty and staking	80,000	-	-	**80,000**
Loss on unrealized embedded derivative	-	-	4,154,986	**4,154,986**
Foreign exchange	-	-	(378,514)	**(378,514)**
Gain on disposition of shares	-	-	(38,957)	**(38,957)**
TOTAL EXPENSES	336,652	2,760,675	6,983,539	**10,080,866**
Net loss for the period	(123,554)	(2,610,568)	(6,983,539)	**(9,717,661)**
Exploration & evaluation assets				
Additions	-	5,416,771	-	**5,416,771**
Impairment	-	(2,591,039)	-	**(2,591,039)**
Transfer to property, plant & equipment	-	(3,043,705)	-	**(3,043,705)**
Decommissioning liability adjustments	-	118,506	-	**118,506**
Foreign currency translation	-	(868,266)	-	**(868,266)**
	-	(967,733)	-	**(967,733)**
Property, plant & equipment				
Additions	-	526,797	-	**526,797**
Transfer from exploration and evaluation assets	-	3,043,705	-	**3,043,705**
Decommissioning liability adjustments	(21,241)	(25,881)	-	**(47,122)**
Foreign currency translation	-	(51,085)	-	**(51,085)**
	(21,241)	3,493,536	-	**3,472,295**
As at December 31, 2017				
Canadian assets	1,514,056	-	-	**1,514,056**
U.S. assets	-	14,642,219	-	**14,642,219**
Corporate assets	-	-	-	**-**
	1,514,056	14,642,219	-	**16,156,275**

(Expressed in Canadian Dollars)

24. Commitments

(a) The Company currently holds a 100% interest in the Burchell Lake Gold Property.

The Company must perform a required level of evaluation activity, to maintain its mining property in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to the claims comprising this property or parts thereof. The Company is required to incur the following minimum expenditures for the next five years to maintain its claims in good standing:

Year	$
2019	35,377
2020	62,800
2021	91,600
2022	91,600
2023	91,600

The Burchell Lake Gold Property is subject to a 3% Net Smelter Return Royalty ("NSR") and is subject to advance royalty payments of $40,000 per annum, payable to the original optionors of the properties, subject to certain criteria. These funds are to be recouped out of future production.

(b) Pursuant to an exploration agreement with the US JV Partner, the Company committed to pay for 100% of the costs of the first joint venture well drilled in the Yegua formation and will earn a 50% working interest in the net revenue from that well. Further, the Company shall pay an aggregate maximum of US$3,500,000 (the "Carry Funding Amount") for 100% of the costs of all subsequent Yegua wells which allows the Company to earn a 75% working interest in the net revenue from these wells until the Carry Funding Amount has reached payout. After payout of the Carry Funding Amount, the Company's working interest in these and future wells shall reduce to 50%. In 2017, the Company drilled six joint venture wells in the Yegua formation and has calculated that it has incurred costs up to the US$3,500,000 Carrying Fund Amount in 2018.

In addition, pursuant to the exploration agreement, the Company has agreed to pay 100% of the costs associated with recompletion of the Cain-Carter #1 well and earns a 50% working interest in the net revenue from that well. The Cain-Carter #1 well has not been recompleted as of December 31, 2018.