Tanager Energy Inc.
Consolidated Financial Statements
December 31, 2017 and 2016
(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

To the Shareholders of 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.

Ernst & Young 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.

May 1, 2018

(signed) "Tom M. Crain, Jr."	*(signed) "Steven Vucurevich"*
Tom M. Crain, Jr.	Steven Vucurevich, CPA, CA
Chief Executive Officer	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tanager Energy Inc.

We have audited the accompanying consolidated financial statements of Tanager Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tanager Energy Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the financial statements, which indicates that the Company incurred a net loss of $9,717,661 during the year ended December 31, 2017 and, as of that date, the Company's current liabilities exceeded its current assets by $4,023,347. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
May 1, 2018

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

	December 31, 2017 $	December 31, 2016 $
ASSETS		
Current assets		
Cash and cash equivalents	**173,516**	693,852
Available for sale security (Note 4)	**231**	192
Accounts receivable and other assets	**642,229**	385,311
	815,976	1,079,355
Deposit (Note 5)	**301,643**	298,743
Exploration and evaluation assets (Note 6 and 10)	**10,955,097**	11,922,830
Property, plant and equipment (Note 7)	**4,083,559**	767,677
TOTAL ASSETS	**16,156,275**	14,068,605
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	**3,402,664**	821,367
Loans payable (Note 9)	**190,000**	190,000
Current portion of convertible debentures (Note 10)	**-**	1,125,598
Current portion of long-term debt (Note 11)	**1,246,659**	-
	4,839,323	2,136,965
Liability component of convertible debentures (Note 10)	**5,945,860**	5,510,475
Embedded derivative related to convertible debentures (Note 10)	**6,871,076**	2,716,090
Long-term debt (Note 11)	**3,739,978**	-
Decommissioning liabilities (Note 12)	**486,461**	411,188
TOTAL LIABILITIES	**21,882,698**	10,774,718
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 13)	**25,091,780**	23,765,581
Contributed surplus (Note 14)	**3,588,152**	3,398,937
Equity portion of convertible debentures (Note 10)	**-**	127,869
Accumulated other comprehensive income (loss)	**(395,480)**	294,714
Deficit	**(34,010,875)**	(24,293,214)
Total shareholders' equity (deficiency)	**(5,726,423)**	3,293,887
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	**16,156,275**	14,068,605

Nature of operations and going concern (Note 1)

Approved on behalf of the Board

(signed) *"Tom M. Crain, Jr."* — Chairman and CEO

(signed) *"Chris Pettit"* — Director

Tanager Energy Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended December 31, 2017 and 2016

	2017 $	2016 $
Revenue		
Oil and gas sales	**503,629**	223,928
Royalties	**(124,971)**	(32,475)
Production taxes	**(15,453)**	-
	363,205	191,453
Expenses		
Operating	**268,028**	243,733
General and administrative	**1,503,394**	576,318
Depletion and depreciation (Note 7)	**158,260**	27,898
Impairment (Note 7)	**2,591,039**	-
Finance expenses (Note 18)	**1,553,415**	849,364
Share-based payments	**189,215**	3,818
Mining royalty and staking	**80,000**	52,903
Loss (gain) on unrealized embedded derivatives (Note 10)	**4,154,986**	(98,779)
Foreign exchange	**(378,514)**	76,565
Gain on disposition of shares (Note 11)	**(38,957)**	-
Write down of deposit	**-**	100,000
	10,080,866	1,831,820
Net loss for the year (Note 20)	**(9,717,661)**	(1,640,367)
Comprehensive income (loss)		
Foreign currency translation	**(690,233)**	309,923
Gain (loss) on available for sale financial assets	**39**	-
Comprehensive income (loss) for the year	**(10,407,855)**	(1,330,444)
Basic and diluted net loss per share (Note 16)	**(0.09)**	(0.02)
Weighted average number of common shares outstanding	**110,483,569**	71,821,580

(Expressed in Canadian Dollars)

	2017 **$**	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	**(9,717,661)**	(1,640,367)
Adjustments:		
Depletion and depreciation	**158,260**	27,898
Impairment	**2,591,039**	-
Accretion (Note 18)	**906,943**	465,438
Share-based payments	**189,215**	3,818
Unrealized foreign exchange	**(395,131)**	144,724
Loss (gain) on unrealized embedded derivative	**4,154,986**	(98,779)
Write down of deposit	**-**	100,000
Decommissioning costs incurred (Note 12)	**(25,426)**	-
Changes in non-cash working capital items (Note 21)	**151,634**	65,376
Net cash used in operating activities	**(1,986,141)**	(931,892)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	**(2,900)**	(1,884)
Additions to exploration and evaluation assets	**(5,416,771)**	(3,732,389)
Additions to property, plant and equipment	**(501,371)**	(135,856)
Changes in non-cash working capital items (Note 21)	**2,178,274**	-
Net cash used in investing activities	**(3,742,768)**	(3,870,129)
CASH FLOWS FROM FINANCING ACTIVITIES		
Credit facility	**4,986,637**	-
Issue of common shares and warrants, net of issue costs	**-**	4,814,358
Issue of convertible debentures, net of issue costs	**-**	1,132,892
Loans payable (repayment)	**-**	(449,385)
Net cash provided by financing activities	**4,986,637**	5,497,865
Effect of changes in foreign exchange rates on cash held in foreign currencies	**221,936**	(2,302)
Net increase (decrease) in cash and cash equivalents for the period	**(520,336)**	693,542
Cash and cash equivalents, beginning of the period	**693,852**	310
Cash and cash equivalents, end of the year	**173,516**	693,852

Supplemental information		
Interest paid	**678,242**	130,976

(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, 2015	55,410,968	19,460,327	2,726,515	-	(15,209)	(22,652,847)	(481,214)
Private placements, net of issue costs	49,545,420	4,143,254	-	-	-	-	4,143,254
Warrants issued under private placement	-	-	668,604	-	-	-	668,604
Exercise of stock options	50,000	2,500	-	-	-	-	2,500
Shares issued to settle debt	2,710,000	159,500	-	-	-	-	159,500
Share-based payments	-	-	3,818	-	-	-	3,818
Equity portion of convertible debenture	-	-	-	127,869	-	-	127,869
Foreign currency translation	-	-	-	-	309,923	-	309,923
Net loss for the period	-	-	-	-	-	(1,640,367)	(1,640,367)
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)**

1. Nature of operations and going concern

Nature of operations

Tanager Energy Inc. ("the Company" or "Tanager") was incorporated in 1946. Pursuant to Articles of Amendment filed in fiscal 2013, the name of the Company was changed to "Tanager Energy Inc." In addition, on June 20, 2016 the Company incorporated Tanager Energy (USA) Inc., a wholly-owned subsidiary. Tanager 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 TAN and on the OTCQB Venture Market in the U.S. as TANEF.

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 30, 2018.

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, 2017. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at December 31, 2017, the Company had a net loss of $9,717,661 (2016 - $1,640,367), a working capital deficiency of $4,023,347 (2016 - $1,057,610) and an accumulated deficit of $34,010,875 (2016 - $24,293,214). 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 statements of financial position classifications that would be necessary if the going concern assumption was inappropriate.

Subsequent to December 31, 2017, the Company's US denominated convertible debentures were converted into common shares of the Company (Note 10 and 26(a)).

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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, 2017. 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").

Certain comparative figures have been reclassified to match the current year's presentation.

3. Significant accounting policies

(a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Tanager Energy (USA) Inc. In December 2017, the Company incorporated two wholly owned entities, Tanager Energy GP, LLC and Tanager Energy, LP 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

Revenue from sale of oil and natural gas is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism at the sales point.

(d) Jointly 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 our 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 income (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.

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.

(g) 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.

3. Significant accounting policies *(continued)*

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 comprehensive loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed 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. A goodwill impairment loss is not reversed.

(h) 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.

(i) 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.

(j) 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 net income (loss). Transaction costs associated with a business combination are expensed as incurred.

(k) 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)*

(l) 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.

(m) 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.

(n) Financial assets and liabilities

The Company's financial instruments consist of the following:

Financial assets:	**Classification:**
Cash and cash equivalents	Fair value through profit and loss ("FVTPL")
Accounts receivable and other assets	Loans and receivables
Available-for-sale security	Available-for-sale financial assets
Financial liabilities:	**Classification:**
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities
Liability component of convertible debentures	Other financial liabilities
Embedded derivative related to convertible debentures	Derivative financial liabilities

3. Significant accounting policies *(continued)*

Fair value through profit and loss:

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the statements of loss and comprehensive loss.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets:

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive loss (“OCI”) and classified as a component of equity. AFS assets include investments in listed equity of other entities.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are recognized in other comprehensive loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive loss are included in profit and loss.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

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

When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. Significant accounting policies *(continued)*

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents and available for sale security are measured based on Level 1. The carrying value of amounts receivable and other assets, accounts payable and other liabilities and loans payable approximates their fair value due to the short-term nature of these balances.

The conversion feature associated the US dollar denominated convertible debentures have been identified as a derivative financial liability. Derivative financial liabilities are recorded upon recognition and subsequently at each financial position date at fair value, with changes in fair value being recognized in earnings.

(o) 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 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 OCI 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.

(p) Segmented reporting

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, which commenced with the acquisition in June 2016. Corporate includes corporate activities and items not allocated between operating segments.

3. Significant accounting policies *(continued)*

(q) 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 judgements:

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.

(r) Significant accounting judgments and estimates

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.

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 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.

3. Significant accounting policies *(continued)*

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 judgment 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.

(s) Significant accounting judgments and estimates

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 a Canada CGU and a Woodbine formation assets CGU and Yegua formation assets CGU in the United States.

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.

3. Significant accounting policies *(continued)*

(t) Accounting standards adopted

The Company adopted the following standards or amendments that were effective at January 1, 2017:

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative – Amendments to IAS 7 Statement of Cash Flows, which require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This standard is effective for annual periods beginning on or after January 1, 2017 and can be applied prospectively. The adoption of this amended standard did not have an impact on the Company's consolidated financial statements.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes, clarifying the accounting for deferred tax assets for unrealized losses. Entities must consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Guidance is also provided on how to determine future taxable profits and explains the circumstances whereby taxable profit may include the recovery of some assets for more than their carrying amount. The adoption of this amended standard did not currently have an impact on the Company.

(u) Accounting standards issued but not yet adopted

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB on December 16, 2011 and will replace the IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having two categories: amortized cost and fair value.

The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial asset. IFRS 9 also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This standard is mandatorily effective from January 1, 2018, with different transitional arrangements depending on the date of initial application. The Company is currently assessing the impact of the new standards on these consolidated financial statements.

IFRS 15 – Revenue from Contracts and Customers ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18 – Revenue, IAS 11 – Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard, and it is effective for annual periods beginning on or after January 1, 2018.

The Company intends to adopt IFRS 15 using a modified transition approach on January 1, 2018. The Company is in the process of reviewing its various revenue streams and underlying contracts with customers and joint venture operations partners. The Company is currently assessing the impact of the new standards on these consolidated financial statements. However, the Company will be required to expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

IFRS 16 – Leases - On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company is currently assessing the impact of the new standards on these consolidated financial statements.

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For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

4. Available-for-sale security

Marketable securities consist of 3,850 (2016 - 3,850) common shares of Damara Gold, a publicly held Canadian company. The securities have been recorded at market value with a corresponding change reflected in other comprehensive income.

5. 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%.

6. Exploration and evaluation assets

	December 31, 2017 $	December 31, 2016 $
Balance, beginning of year	**11,922,830**	-
Asset acquisition	**-**	10,823,258
Additions	**5,416,771**	787,338
Impairment	**(2,591,039)**	-
Transfer to property, plant and equipment	**(3,043,705)**	-
Decommissioning liability adjustment (note 12)	**118,506**	-
Foreign exchange	**(868,266)**	312,234
Balance, end of year	**10,955,097**	11,922,830

Impairment

USA:

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

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

6. Exploration and evaluation assets *(continued)*

2016 U.S. Asset Acquisition

On June 27, 2016, the Company completed the acquisition, through its US subsidiary, of an undivided 50% interest in a non-producing well and in certain lease holdings, including well lease holdings, and a 50% joint venture participation right in the drilling of prospects underlying 223 square miles of 3D seismic data within an AMI of approximately 200,000 acres (312.5 square miles) geographical area, in Polk County and Tyler County Texas, to formations which include the Woodbine, Eagleford, and Yegua sandstones.

The aggregate purchase price of US$8 million (CAD$10,437,400) was satisfied by a cash payment in the amount of US$2,000,000 and the issuance of 6% secured convertible debentures (refer to Note 10) in the aggregate principal amount of US$6,000,000 (the “June Debentures”). Purchase price adjustments of $214,526 and transaction costs of $142,565 related to this acquisition were capitalized. The entire amount of $10,823,258, including $28,767 for decommissioning liabilities, was allocated to exploration and evaluation assets. The asset acquisition did not meet the definition of a business combination under IFRS 3 as the assets acquired are comprised of a non-producing well and undeveloped land prospects.

7. Property, plant and equipment

Years ended December 31,	**December 31, 2017**	December 31, 2016
Oil and gas properties	**$**	$
Cost		
Balance, beginning of year	**822,172**	956,012
Additions	**526,797**	135,856
Transfer from exploration and evaluation assets	**3,043,705**	-
Decommissioning liability adjustments (Note 12)	**(47,122)**	(269,696)
Foreign exchange	**(51,085)**	-
Balance, end of year	**4,294,467**	822,172
Accumulated depletion and depreciation		
Balance, beginning of year	**54,495**	26,597
Depletion and depreciation	**158,260**	27,898
Foreign exchange	**(1,847)**	-
Balance, end of year	**210,908**	54,495
Net book value	**4,083,559**	767,677

Depletion

As at December 31, 2017, $577,000 and $775,000 of future development costs have been added to the respective USA and Canada cost bases for depletion calculation purposes (2016 - $nil and $750,000).

Impairment

USA:

At December 31, 2017, no impairment indicators were identified for the USA CGUs.

Canada:

At December 31, 2017, no impairment indicators were identified for the Canada CGU.

At December 31, 2016, the Company determined that a downward technical revision in the reserve volumes of the Company was an indication of impairment and tested its Canada cash-generating unit for impairment. The recoverable amount of the Canada CGU 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 15% 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, the Company has concluded that there was no impairment of its oil and gas properties at December 31, 2016.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

8. Accounts payable and other liabilities

	2017	2016
	$	$
Accounts payable and other liabilities	**834,059**	312,370
Accounts payable to related parties	**2,568,605**	508,996
	3,402,664	821,366

As at December 31, 2017, the accounts payable to related parties includes interest accrued of $179,422 (2016 - $286,514) on convertible debentures held by a director of the Company and a trust (the "Trust") and $2,389,183 (2016 - $222,482) due to a joint venture partner (Note 19 (c)).

9. Loan payable

	2017	2016
	$	$
Loan from joint venture partner	**190,000**	190,000

The loan from the joint venture partner is non-interest bearing, unsecured and due on demand.

10. 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 13).

CD-2: On June 27, 2016, the Company issued the June Debentures in the aggregate amount of US$6 million (CAD $7,846,800), as described in Note 6 above.

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.

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.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

10. Convertible debentures *(continued)*

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 earnings. The fair value of the embedded derivative component is adjusted to fair value at each financial position date. The fair value of the conversion feature was determined using a Black-Scholes option pricing model and the following assumptions as of December 31, 2017: (a) a CDN/US exchange rate of 1.2545, (b) dividend yield of 0%, (c) expected volatility of 125%, (d) risk free rate of 1.89%, (e) an expected life of 1.50 years, and (f) a share price of $0.10/share.

Subsequent to December 31, 2017 and on March 27, 2018, the CD-2 debentures were converted into 110,451,428 common shares of the Company (Note 26(a)).

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
Less: current portion	-	-	-
Long-term portion	-	5,945,860	5,945,860
Embedded derivative related to convertible debentures			
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**
Equity			
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	-	-	-

As at December 31, 2017, accrued interest for the above two debentures amounted to $178,422 and is included in accounts payable and other liabilities. The debenture holders of the US$6 million CD-2 debentures had agreed to delay the monthly interest payments since October 2017.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

11. Long-term debt

	December 31, 2017	December 31, 2016
	$	$
Credit Facility	**4,735,738**	-
Note Payable	**250,900**	-
Balance, December 31, 2017	**4,986.638**	-
Less: current portion	**(1,246,659)**	-
Long-term portion	**3,739,978**	-

Credit Facility

On December 14, 2016 and in connection with an equity offering (Note 10), the Company entered into a line of credit agreement (the "Credit Facility") with an arm's length third party private corporation (the "Lender") for U.S. $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 Tanager 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 Tanager and its US subsidiary.

As of December 31, 2017, the Company has drawn an aggregate of US$3,775,000 (or an equivalent of CDN $4,735,738) on the Credit Facility.

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 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.
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, 2017, 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 actively 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 has been recognized as a gain on disposition of shares on the consolidated statements of loss. In addition, as of September 27, 2017, all common share purchase warrants held by the Lender (Note 10) are available to be cancelled or transferred to third parties at the discretion of the Company.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

11. Long-term debt *(continued)*

Note Payable

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

The scheduled repayments of principal for long-term debt are as follows:

	$
Due within 12 months	**1,246,659**
2019	**3,739,978**
Total	**4,986,638**

12. 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, 2017	December 31, 2016
	$	$
Beginning balance	**411,188**	642,656
Additions	**124,747**	28,767
Accretion	**9,224**	6,812
Change in estimate	**(27,937)**	(267,057)
Decommissioning costs incurred	**(25,426)**	-
Foreign exchange	**(5,335)**	10
Ending balance	**486,461**	411,188

13. 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, 2015	**55,410,968**	**19,460,327**
Non-brokered private placement (i)	28,545,420	2,791,827
Non-brokered private placement (ii)	21,000,000	1,351,427
Debt settlement (iii)	960,000	72,000
Debt settlement (iv)	1,750,000	87,500
Exercise of stock options	50,000	2,500
Balance, December 31, 2016	**107,716,388**	**23,765,581**
Conversion of convertible debentures (v)	17,119,000	1,326,199
Balance, December 31, 2017	**124,835,388**	**25,091,780**

(i) On June 24, 2016, the Company completed a non-brokered private placement of subscription receipts at an offering price of $0.10 per subscription receipt for gross proceeds of $2,854,542. Upon completion of the acquisition of assets on June 27, 2016, each subscription receipt was automatically converted into one common share of the Company without payment of additional consideration. Issue costs of $62,715 have been recorded.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

13. Share Capital *(continued)*

(ii) 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 consists 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. (Note 11)

As a result, $1,431,396 of the gross proceeds was allocated to the common shares and $668,604 was allocated to the Warrants which is recorded in contributed surplus. The fair value of the Warrants was calculated using the Black-Scholes pricing model with the following assumptions: (a) dividend yield of 0%, (b) expected volatility of 60%, (c) risk free rate of 0.80%, and (d) an expected life of 32 months. Issue costs of $79,969 have been recorded.

(iii) On July 7, 2016, the Company settled outstanding indebtedness of $72,000 through the issuance of 960,000 common shares of the Company at a deemed price of $0.075 per share. As the transaction was with shareholders of the Company, the transaction has been valued at the carrying value of the indebtedness extinguished. The indebtedness settled was for accounts payable amounts owing to former directors and officers of the Company. The common shares issued in connection with the debt settlement were subject to a four month hold period that expired on November 8, 2016.

(iv) Pursuant to a settlement agreement with a former Director and Officer of the Company, on October 14, 2016 the Company settled outstanding accounts payable owing of $87,500 by setoff against the payment of the exercise price for stock options

(v) The outstanding CD-1 convertible debentures in the aggregate principal amount of $1,198,330 (Note 10) 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.

14. Contributed surplus

The following table presents the reconciliation of contributed surplus with respect to warrants and share-based payments:

	December 31, 2017	December 31, 2016
	$	$
Balance, beginning of year	**3,398,937**	2,726,515
Warrants issued under private placement (Note 13)	**-**	668,604
Share-based payments (Note 15)	**189,215**	3,818
Balance, end of year	**3,588,152**	3,398,937

15. 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.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

15. Stock options *(continued)*

The following table reflects the continuity of stock options for the years ended December 31, 2017 and December 31, 2016:

	Number of Options	Weighted average exercise price ($)
Outstanding December 31, 2015	4,435,000	0.05
Forfeited	(2,635,000)	(0.05)
Exercised	(1,800,000)	(0.05)
Outstanding December 31, 2016	-	-
Granted	2,000,000	0.15
Outstanding December 31, 2017	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.

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

16. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2017 was based on the loss attributable to common shareholders of $9,717,661 (2016 – 1,640,367) and the weighted average number of common shares outstanding of 110,483,569 (2016 – 71,821,580). In calculating diluted weighted average number of common shares outstanding for year ended December 31, 2017, the Company excluded 2,000,000 outstanding options (2016 – nil), 21,000,000 (2016 – 21,000,000) warrants and 107,528,572 (2016 – 132,207,571) 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 (2016 – 1.3427) for the US dollar denominated debentures.

17. Warrants

The following table reflects the continuity of warrants for the periods ended December 31, 2016 and December 31, 2017 of which the value is recorded in contributed surplus (Note 14):

	Number of warrants
Balance, December 31, 2015	5,012,500
Expired	(5,012,500)
Issued	21,000,000
Balance, December 31, 2016 and 2017	21,000,000

Refer to note 11 and 13 for further information on the Warrants outstanding at December 31, 2016 and December 31, 2017.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

18. Finance expenses

	For the years ended December 31,	
	2017	2016
	$	$
Interest expense (1)	**646,472**	383,926
Accretion on convertible debentures (Note 10)	**897,719**	458,626
Accretion on decommissioning liabilities (Note 12)	**9,224**	6,812
	1,553,415	849,364

(1) Interest expense for the year ended December 31, 2017 includes $566,428 (2016 – 321,426) of interest on convertible debentures, $nil (2016 - $62,450) of interest on the loan payable to a former Director and Officer of the Company, and $80,044 (2016 - $nil) of interest accrued on the Credit Facility and Note Payable.

19. 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 31, 2017 and 2016:

(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 expense on the Canadian dollar debentures and 6% coupon interest expense on the US dollar denominated debentures. A total of $313,648 (2016 - $184,431) and $234,526 (2016 - $121,707) coupon interest was incurred on the portion of these convertible debentures held by the director and the Trust, respectively, of which $179,422 (2016 - $286,514) was 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. Upon completion of the conversion, this Director controlled 13,515,000 common shares, or approximately 10.8% of the total issued and outstanding common shares and the US dollar denominated convertible debenture. Subsequent to December 31, 2017, the US dollar denominated debentures were converted into 110,451,428 Common Shares of the Company (Note 26 (a)).

(b) For the year ended December 31, 2016, the Company paid $62,450 of interest on a loan payable to a former Director and Officer of the Company.

(c) Further to the acquisition of U.S. assets described in Note 6, the Company now 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 convertible debentures of the Company which could be convertible into 107,528,572 common shares of the Company as at December 31, 2017 based upon a conversion price of $0.07/share and a CDN/US exchange rate of 1.2545 for the US dollar denominated debentures. The director of the Company holds 13,515,000 common shares 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 24. Included in accounts receivable at December 31, 2017 is $121,899 of unapplied cash call advances paid to the US JV Partner. Included in accounts payable at December 31, 2017 is $2,389,183 owing to the US JV Partner.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

19. Related party transactions *(continued)*

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 in 2017 and 2016:

	2017	2016
	$	$
Short term benefits	**458,655**	226,577
Share-based payments	**189,215**	3,818
	647,870	220,395

20. 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% (2016 - 27%). The reasons for the differences are as follows:

	2017	2016
	$	$
Loss before taxes	**(9,717,661)**	(1,640,367)
Computed expected Income tax recovery	**(2,623,769)**	(469,303)
Share-based payments	**51,088**	1,301
Change in tax rates	**237,337**	(154,600)
Other	**1,169,368**	161,400
Deferred tax benefits not recognized	**1,165,976**	451,202
	-	-

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

	2017	2016
	$	$
Non-capital losses carried forward (Canada)	**6,396,729**	4,853,715
Net-operating losses carried forward (USA)	**5,886,051**	256,778
Share issue costs	**124,758**	312,051
Tax pools in excess of accounting basis	**17,530,326**	17,317,439
	29,937,864	22,739,986

The Company has $6,396,729 in non-capital losses in Canada which expire between 2026 and 2037. The Company has net operating losses for income tax purposes in the U.S. of US$4,691,950 (2016 – $191,240) which expire by 2037.

21. Changes in non-cash working capital

	2017	2016
	$	$
Changes in non-cash working capital items:		
Accounts receivable and other assets	**(256,918)**	(251,878)
Accounts payable and accrued liabilities	**2,586,826**	317,254
	2,329,908	65,376
Changes related to:		
Operating activities	**151,634**	65,376
Investing activities	**2,178,274**	-
	2,329,908	65,376

22. 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, 2017, totaled a $5,726,423 shareholders' deficiency (2016 - $3,293,887 equity).

22. Capital risk management *(continued)*

As of December 31, 2017, the US dollar denominated convertible debentures are recorded as the liability component of convertible debentures and the embedded derivative related to convertible debentures of $5,945,860 and $6,871,076, respectively. Subsequent to December 31, 2017, the convertible debentures were converted to common shares of the Company (Note 26(a)), which will increase the equity of the Company.

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 (Note 1).

The Company is not subject to any material externally imposed capital requirements or covenants.

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, 2017.

23. 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.

(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’s credit facility lender has failed to provide further scheduled loan advances (Note 11).

The Company generates cash flow primarily from its financing activities. As at December 31, 2017, the Company had cash and cash equivalents of $173,516 (2016 - $693,852) to settle current liabilities of $4,839,323 (2016 - $2,136,864). Current liabilities include $2,568,605 (2016 - $508,996) of amounts due to related parties (Note 8). 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.

23. Financial risk management *(continued)*

(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. The interest bearing debt is at fixed rates and not subject to rate fluctuations. 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. Commencing in 2016, the Company operates in the US and is exposed to foreign exchange risk. As at December 31, 2017, the Company is exposed to foreign currency risk though the following assets and liabilities denominated in US dollars:

	US Dollars ($)
Cash and cash equivalents	111,339
Accounts payable	(2,093,107)
Long-term debt	(3,975,000)
Principal of U.S. dollar denominated convertible debentures	(6,000,000)
	(11,956,768)

Based on the above net exposures as at December 31, 2017 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 $1,500,000 (2016 - $834,000) in the Company’s comprehensive income for the year.

(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 49% (2016 – 68%) and 48% (2016 – 0%), respectively, of the total revenue during the year ended December 31, 2017.

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

24. 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, which commenced with the acquisition in June 2016. Corporate includes corporate activities and items not allocated between operating segments.

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**

For the years ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

24. Segmented financial information *(continued)*

For the year ended December 31, 2016

	Canada	U.S.	Corporate	**Consolidated**
	$	$	$	**$**
REVENUES, NET OF ROYALTIES	191,453	-	-	**191,453**
EXPENSES				
Operating	243,733	-	-	**243,733**
General and administrative	-	-	576,318	**576,318**
Depletion and depreciation	27,898	-	-	**27,898**
Finance expenses	-	-	849,364	**849,364**
Share based payments	-	-	3,818	**3,818**
Mining royalty and staking	52,903	-	-	**52,903**
Gain on unrealized embedded derivative	-	-	(98,779)	**(98,779)**
Foreign exchange	-	-	76,565	**76,565**
Write down of deposit	-	-	100,000	**100,000**
TOTAL EXPENSES	324,534	-	1,507,286	**1,831,820**
Net loss for the year	(133,081)	-	(1,507,286)	**(1,640,367)**
Exploration & evaluation assets				
Asset acquisition	-	10,823,258	-	**10,823,258**
Additions	26,104	761,234	-	**787,338**
Foreign currency translation	-	312,234	-	**312,234**
	26,104	11,896,726	-	**11,922,830**
Property, plant & equipment				
Additions	70,417	65,439	-	**135,856**
As at December 31, 2016				
Canadian assets	2,058,229	-	-	**2,058,229**
U.S. assets	-	12,010,376	-	**12,010,376**
Corporate assets	-	-	-	**-**
	2,058,229	12,010,376	-	**14,068,605**

25. 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 does not have any required activity for two years due to expenditures made to date.

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.

25. **Commitments** *(continued)*

(b) Pursuant to the Company's Credit Facility (Note 11), the extension of the Credit Facility availability date, in conjunction with the receipt of timely funding of the remaining availability under the Credit Facility, 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.

(c) 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$3.5 million (the "Carry Funding Amount") for 100% of the costs of all subsequent Yegua wells which allows Tanager 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 nearly incurred costs up to the US$3.5 million Carrying Fund Amount as of December 31, 2017.

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, 2017.

26. Contingency

On April 18, 2018, a third-party individual (the "Plaintiff") filed a claim against the Company's Lender, the Company, and its wholly owned subsidiary, Tanager Energy (USA) Inc., as defendants, (the "Tanager Defendants") in a Dallas, Texas court. The Plaintiff's claims against the Tanager Defendants arise from alleged fraudulent representations and omissions which induced the Plaintiff, to make investments and loans, directly or indirectly, to the Company. The total amount of recoupment sought by the Plaintiff is US$3,775,000.00. The Plaintiff is also seeking unspecified amounts for legal fees, pre and post judgement interest at the highest rate allowed by law, and unspecified exemplary damages. The Plaintiff has sued the Lender for fraud, fraud by non-disclosure, and statutory fraud. Plaintiff has sued the Tanager Defendants for money had and received and seeks relief in the form of a declaratory judgment that 21,000,000 common shares and 21,000,000 share purchase warrants, originally issued in December 2016, (Notes 11, 13 and 17) should be issued in the name of the Plaintiff instead of the Lender. The Company denies all allegations and claims for relief and intends to vigorously defend the claims filed against them by the Plaintiff. While the Company believes this claim to be without merit, US$3,775,000 of amounts claimed are already recognized as a liability under the Credit Facility (Note 11), although the timing of repayment of this amount would change and may all become current if the Company is unsuccessful in its defense. The outcome of this matter is not determinable at this time.

27. Subsequent events

(a) On March 27, 2018, the outstanding CD-2 convertible debentures in the aggregate principal amount of US$6,000,000 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.

Roger S. Braugh, Jr., a director of Tanager, acquired 55,225,714 Common Shares pursuant to the conversion, representing 23.47% of the issued and outstanding Common Shares of the Company. Prior to the conversion, Mr. Braugh held 13,515,000 Common Shares, or approximately 10.8% of the total issued and outstanding Common Shares, and the secured convertible debenture in the principal amount of US$3,000,000. Upon completion of the conversion, Mr. Braugh now controls 68,740,714 Common Shares, or approximately 29.22% of the total issued and outstanding Common Shares. In addition, Chris Pettit & Associates PC, controlled by Mr. Pettit, a director of Tanager, as trustee of a trust, acquired 55,225,714 Common Shares pursuant to the conversion, representing 23.47% of the issued and outstanding Common Shares of the Company. Prior to the conversion, the Trust held the secured convertible promissory note in the principal amount of US$3,000,000. Upon completion of the conversion, the Trust now controls 55,225,714 Common Shares, or approximately 23.47% of the total issued and outstanding Common Shares.

(b) On March 26, 2018, received loan proceeds of US$400,000 from an arm's length third-party lender. Pursuant to the terms of the loan agreement, the loan is unsecured and bears interest at 6% per annum. The loan shall mature and be due and payable, along with accrued interest, on June 26, 2018.