International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2016

Contents

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Independent Auditors' Report

To the Shareholders of
International Frontier Resources Corporation

We have audited the accompanying consolidated financial statements of International Frontier Resources Corporation and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, and the consolidated statements of operations and comprehensive loss, changes in equity 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 audits 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 International Frontier Resources Corporation and its subsidiary as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Crowe MacKay LLP

Calgary, Alberta
April 25, 2017

Chartered Professional Accountants

International Frontier Resources Corporation

Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
Assets		
Current		
Cash and cash equivalents (Note 17)	**$ 1,944,420**	$ 2,240,470
Receivables	**194,610**	255,885
Prepaids and deposits	**17,785**	46,000
Assets held for sale (Note 18)	**502,150**	-
	2,658,965	2,542,355
Restricted cash on deposit (Note 5)	**300,000**	300,000
Reclamation deposits	**-**	336,540
Investment in TE Corporation (Note 15b)	**365,780**	139,785
Exploration and evaluation (Note 6)	**6,958,260**	7,631,460
Property, plant and equipment (Note 7)	**6,550**	389,400
	$ 10,289,555	$ 11,339,540
Liabilities		
Current		
Payables and accruals (Note 8)	**$ 357,900**	$ 456,370
Current portion of decommissioning liabilities (Note 9)	**-**	92,500
Liabilities related to assets held for sale (Note 18)	**1,303,425**	-
	1,661,325	548,870
Decommissioning liabilities (Note 9)	**-**	1,080,185
	1,661,325	1,629,055
Shareholders' Equity		
Share capital (Note 11a)	**44,854,935**	43,296,940
Contributed surplus (Note 11b)	**12,482,395**	11,870,515
Deficit	**(48,709,100)**	(45,456,970)
	8,628,230	9,710,485
	$ 10,289,555	$ 11,339,540

Commitments and contingencies (Note 16)
Subsequent events (Note 20)

On behalf of the Board

(Signed) "Gary Lyons" Director **(Signed) "Anthony Kinnon"** Director

See accompanying notes to the consolidated interim financial statements (unaudited).

International Frontier Resources Corporation

Consolidated Statements of Operations and Comprehensive Loss

For the year ended December 31,	**2016**	2015
Revenue		
Interest income	**15,030**	19,325
Foreign exchange gain (loss)	**(29,435)**	14,990
	(14,405)	34,315
Expenses		
General and administration	**1,270,555**	750,860
Pre-exploration costs (Note 15a)	**258,620**	539,615
Depreciation (Note 7)	**31,980**	9,265
Impairments (Notes 6)	**787,000**	2,136,470
Finders' fee (Note 11a(i))	**187,500**	-
Share based compensation (Note 11d)	**247,385**	271,320
Loss on equity investment (Note 15b)	**258,435**	90,165
	3,041,475	3,797,695
Net loss and comprehensive loss from continuing operations	**$ (3,055,880)**	$ (3,763,380)
Net loss from discontinued operations (Note 18)	**(196,250)**	(631,395)
Net loss	**$ (3,252,130)**	$ (4,394,775)

Net loss from continuing operations per share (Note 13)		
Basic	**$ (0.03)**	$ (0.05)
Net loss from discontinued operations per share (Note 13)		
Basic	**$ (0.00)**	$ (0.01)
Net loss per share (Note 13)		
Basic	**$ (0.03)**	$ (0.06)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Changes in Equity

December 31, 2016

As at:	December 31, 2016		December 31, 2015	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of period	85,540,845	$ 43,296,940	66,378,965	$ 42,292,955
Shares issued for cash	12,800,000	1,600,000	19,161,880	1,321,195
Shares issued in lieu of Finder's Fee	1,250,000	187,500		
Shares issue on exercise of options	450,000	88,440		
Shares issue on exercise of warrants	650,000	98,310		
Value of warrants (Note 11)	-	(424,245)	-	(273,835)
Share subscriptions receivable (Note 11)	-	30,865		(43,375)
Share issue costs		(22,875)		
Balance, end of period	100,690,845	$ 44,854,935	85,540,845	$ 43,296,940
Contributed surplus				
Balance, beginning of period		$ 11,870,515		$ 11,325,360
Share based compensation expense (Note 11)		247,385		271,320
Value of warrants (Note 11)		424,245		273,835
Exercise of stock options		(34,440)		
Exercise of warrants		(25,310)		
Balance, end of period		$ 12,482,395		$ 11,870,515
Deficit				
Balance beginning of period		$ (45,456,970)		$ (41,062,195)
Net loss for the period		(3,252,130)		(4,394,775)
Deficit end of period		$ (48,709,100)		$ (45,456,970)
Total Equity		$ 8,628,230		$ 9,710,485

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Cash Flows

For the year ended December 31,	2016	2015
Operating		
Net loss from continuing operations	$ (3,055,880)	$ (3,763,380)
Non-Cash Items:		
Depletion and depreciation	31,980	9,265
Impairments	787,000	2,136,470
Finders' fee	187,500	-
Share based compensation (Note 11)	247,385	271,320
Loss on equity investment (Note 15b)	258,435	90,165
	(1,543,580)	(1,256,160)
Change in working capital (Note 17)	341,115	(239,405)
Cash flow from continuing operations	(1,202,465)	(1,495,565)
Cash flow from discontinued operations	(163,780)	(8,205)
	(1,366,245)	(1,503,770)
Investing		
Additions to exploration and evaluation assets (Note 6)	(113,800)	(102,740)
Additions to property and equipment (Note 7)	(785)	(4,560)
Investment in TE Corporation (Note 15b)	(484,430)	(229,950)
Cash flow from continuing investing activities	(599,015)	(337,250)
Cash flow from discontinued investing activities	(65,780)	-
	(664,795)	(337,250)
Financing		
Units issued for cash (Note 11)	1,600,000	1,321,195
Exercise of warrants	73,000	-
Share subscription receivable (Note 11)	30,865	(43,375)
Share issuance costs	(22,875)	-
Exercise of options	54,000	-
Cash flow from continuing financing activities	1,734,990	1,277,820
Net decrease in cash and cash equivalents	(296,050)	(563,200)
Cash and cash equivalents		
Beginning of year	2,240,470	2,803,670
End of year	$ 1,944,420	$ 2,240,470

Supplemental cash flow information (Note 17)

See accompanying notes to the consolidated financial statements.

1. Nature of operations

International Frontier Resources Corporation (the "Company") is an independent Canadian publicly traded company, the principle business of which is to acquire, develop, exploit and produce oil and natural gas in Mexico, the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada, and in north-west Montana in the United States. These consolidated financial statements are denoted in Canadian dollars.

The Company was incorporated under the Canada Business Corporations Act in Alberta, Canada in 1997. The Company is listed on the TSX Venture Exchange, having the symbol IFR-V. The address of the Company's corporate office and principal place of business is Suite 2410, 520 5th Avenue S.W., Calgary, Alberta, Canada.

The consolidated financial statements include the accounts of the Company and its 99.80% owned Mexican subsidiary, Petro Frontera S.A.P.I de CV ("Frontera"), which is accounted for using the consolidation method. All inter-company transactions and balances are eliminated upon consolidation. The consolidated financial statements also include Frontera's 50% investment in Tonalli Energia S.A.P.I. de CV ("TE Corporation"), a Mexican company which is accounted for using the equity method.

2. Basis of preparation and statement of compliance

The consolidated financial statements (the "financial statements") are presented under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and were prepared using accounting policies consistent with IFRS. A summary of the Company's significant accounting policies is presented in Note 3.

These financial statements were approved and signed by the Chairman and Co-Chairman of the Board of Directors on April 21, 2017, having been duly authorized to do so by the Board of Directors.

These financial statements have been prepared on a historical cost basis, unless otherwise required, and are presented in Canadian dollars, which is the Company's functional currency.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, cash held in trust and short-term deposits with original maturities of three months or less.

Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the financial statements in accordance with IFRS requires that Management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant judgments, estimates and assumptions made by Management in the preparation of these financial statements are outlined below.

3. Summary of significant accounting policies (continued)

Amounts recorded for depletion, depreciation and impairment expense, accretion expense, decommissioning liabilities, fair value measurements, and amounts used in impairment tests for exploration and evaluation assets, and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions.

The total decommissioning liabilities is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.

The Company uses the Black-Scholes option pricing model in determining share based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected option life, forfeiture rate, and expected share price volatility. Consequently, the actual share based compensation expense may vary from the amount estimated.

In determining the type of joint arrangement as either a joint operation or a joint venture is based on management's determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters.

Consolidation

The consolidated financial statements of the Company comprise the financial statements of the Company and its subsidiary, Frontera, as at December 31, 2016. All intercompany transactions and balances are eliminated on consolidation. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity.

3. Summary of significant accounting policies (continued)

Joint Arrangements

Certain of the Company's activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

Joint operations arise when the Company has a direct ownership interest in jointly controlled assets and obligations for liabilities. The consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of this type of arrangement.

Joint ventures arise when the Company has a right to the net assets of the arrangement. For these arrangements, the Company uses the equity method of accounting and recognizes initial and subsequent investments at cost, adjusting for the Company's share of the joint venture's income or loss, less dividends received thereafter.

At each reporting date the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and the carrying value, then recognizes the loss in the consolidated statement of operations and comprehensive loss.

Equity Method

Investments in associates are accounted for using the equity method. Investments of this nature are recorded at original cost. Investments in associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Distributions received reduce the carrying amount of the investment. The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. If such impairment indicators exist, the carrying amount of the investment is compared to its recoverable amount. The recoverable amount is the higher of the investment’s fair value less costs to sell and its value in use. The investment is written down to its recoverable amount when its carrying amount exceeds the recoverable amount. The Company's investment in TE Corporation is accounted for as an investment in associates.

Foreign Currency Translation

Monetary assets and liabilities that are denominated in foreign currencies are translated into the Company’s functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the Statements of Operations and Comprehensive Loss.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the date of the transactions. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the reporting period date. Non- monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. Summary of significant accounting policies (continued)

The results and financial position of subsidiary's with a different presentation currency than the Company's are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rate and

(iii) All resulting exchange differences are taken are booked as foreign exchange gains or losses for the period.

Revenue recognition

Revenue associated with the production and sales of crude oil is recognized when title passes from the Company to its customer.

Interest income is recognized as the interest accrues using the effective interest method.

Exploration and Evaluation Assets and Property, Plant and Equipment

i) Cost

Oil and gas properties and other property, plant and equipment are stated at cost. The chosen accounting policy requires management to determine the proper classification of activities designated as developmental or exploratory, which then determines the appropriate accounting treatment of the costs incurred for oil and natural gas exploration, evaluation and development expenditures.

The results from an exploration drilling program can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. Exploration drilling costs can fluctuate from year to year due to such factors as the level of exploratory spending, the level of risk sharing with third parties participating in the exploratory drilling and the degree of risk associated with drilling in particular areas.

ii) Exploration and evaluation costs

Once the legal right to explore has been acquired, direct costs of exploration activities are capitalized as intangible exploration and evaluation assets until the assets have been evaluated. Direct costs can include unproved property acquisition costs, geological and geophysical costs, exploratory drilling costs, materials used and contract labour costs. When technical feasibility and commercial viability are demonstrated, the exploration and evaluation costs are then transferred to property, plant and equipment. As long as these assets remain classified as intangible exploration and evaluation assets, they are subject to technical, commercial and management review, as well as a review for indicators of impairment at each reporting period. If there are indicators of impairment, exploration and evaluation assets are tested for impairment at the operating segment level together with property, plant and equipment. Exploration and evaluation assets are derecognized when the legal right to explore has expired or when the carrying value of the asset is no longer expected to be recoverable from future operations. Costs incurred before the Company has a legal right to explore are expensed in the period in which they are incurred as pre-exploration costs.

iii) Petroleum and natural gas properties

Petroleum and natural gas properties are recorded at cost less accumulated depletion and accumulated impairment losses. All direct costs related to the acquisition, exploration and

3. Summary of significant accounting policies (continued)

development of petroleum and natural gas properties are initially capitalized. Costs are comprised of the asset's purchase price or construction costs, which can include lease acquisitions, geological and geophysical costs, equipment costs, drilling, completion and tie-in costs, overhead expenses directly related to development activities and an estimate of costs to decommission the asset.

Petroleum and natural gas properties are depleted using the unit-of-production method based on proven and probable reserves as determined by the Company's independent reserve evaluators, using estimated future prices and costs. The depletion cost base includes total capitalized costs plus the estimated future costs associated with developing proven and probable reserves.

Oil and gas reserves are evaluated by an independent qualified reserve evaluator. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depreciation, depletion and impairment expense, in addition to determining possible impairments of property, plant and equipment. Costs with respect to the Company's battery at Alderson are amortized on a straight-line basis over the useful life of the related assets.

Petroleum and natural gas properties are derecognized when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition is included in the statement of operations and comprehensive loss.

iv) Office furniture and equipment

Office furniture and equipment are stated at historical cost less depreciation and, where necessary, impairment losses. Depreciation is calculated using the following rates and methods:

Office furniture and equipment	20%
Computer equipment and software	30% - 100%
Leasehold improvements	Straight line term of lease

v) Impairment of exploration and evaluation assets and property, plant and equipment

The Company's exploration and evaluation assets and property, plant and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the Company will then perform an impairment test. The test requires that the Company estimate the assets' recoverable amount. The test must be performed at the lowest level of which an asset or a cash generating unit ('CGU') generates cash inflows that are largely independent of those from other assets or other CGU's. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

The recoverable amount is calculated as the greater of an asset or CGU's fair value less costs to sell and its value-in-use. Fair value less costs to sell may be determined using discounted future net cash flows of proven and probable reserves using forecasted market prices and costs. Value-in-use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. Impairment losses are recognized as impairments in the statement of operations and comprehensive loss.

3. Summary of significant accounting policies (continued)

At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indicators exist, the Company estimates the assets or CGU's recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined net of depletion, had no impairment loss been previously recognized for the asset or CGU. Such reversal is recognized in the statement of operations and comprehensive loss.

Reclamation Deposits

The Company has funds on deposit with the Alberta Energy Regulators (“AER”) due to the Company’s Licensee Liability Rating (“LLR”). The LLR program is established by the AER to prevent the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline from becoming the responsibility of the public of Alberta.

Decommissioning liabilities

The Company recognizes the fair value of a decommissioning liability and a corresponding increase in the carrying value of the related long-lived asset in the period in which it is constructed or acquired. The fair value of the obligation is management’s best estimate of the cost to retire the asset based on current legislation and industry practice, discounted to its present value using a risk-free rate. The increase in the carrying value of the asset is amortized on a unit-of-production basis consistent with the method used to record depletion on the Company’s petroleum and natural gas properties. The liability is subsequently adjusted for the passage of time, which is recognized as accretion expense in the statement of operations and comprehensive loss.

Inherent in the calculation of the decommissioning liability are numerous assumptions and judgments including the ultimate settlement amounts, future third party pricing, inflation factors, risk free discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. The liability is periodically adjusted for revisions to these assumptions. Actual costs incurred upon settlement of the obligations are charged against the liability.

Earnings Per Share Amounts

Basic earnings per common share are computed by dividing the net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if stock options or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislations. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized in payables and accruals on the balance sheet. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

3. Summary of significant accounting policies (continued)

Income Taxes

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable net earnings will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred tax assets and liabilities are recognized at expected tax rates in effect in the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The effect of a change to the tax rate on the future tax assets and liabilities is recognized in net earnings when substantively enacted.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Share-Based Payments

The Company has a stock option plan as described in Note 11. The Company uses the fair value method of accounting for stock options granted to directors, employees and non-employees. Fair values are determined using the Black-Scholes option-pricing model. Compensation costs are recognized in the statement of operations and comprehensive loss at the date of grant as the options vest immediately. Upon exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

Unit Private Placements

The Company uses the relative fair-value approach in accounting for the values assigned to the common shares and the common share purchase warrants calculated in accordance with the Black Scholes option-pricing model.

Financial Instruments

Financial instruments must initially be recognized at fair value on the balance sheet based on their initial classification. Each financial instrument is classified as one of the following categories: financial assets and financial liabilities measured at fair value through profit or loss, loans and receivables, held to maturity investments, available for- sale financial assets, or other financial liabilities.

Financial assets include cash and cash equivalents, receivables, reclamation deposits and restricted cash on deposit. Financial liabilities include payables and accruals.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

3. Summary of significant accounting policies (continued)

i) Financial Assets

For the purpose of subsequent measurement, financial assets, other than those designated as effective hedging instruments, are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. The Company does not have any hedging instruments.

- *Financial assets at fair value through profit or loss* – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash and cash equivalents and restricted cash on deposit fall into this category of financial instruments.

- *Loans and receivables* – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's receivables fall into this category of financial instruments.

- *Held-to-maturity investments* – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.

- *Available-for-sale financial assets* – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortized cost, 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, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date that the

3. Summary of significant accounting policies (continued)

impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

ii) Financial Liabilities

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- *Financial liabilities at fair value through profit or loss* - Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.
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- *Other financial liabilities* – Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of operations and comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's payables and accruals fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

4. New Accounting Policies

<u>Change in accounting policies</u>

On January 1, 2016, the Company adopted the following pronouncements and amendments as issued by the IASB. The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

i) IFRS 5 Non current Assets Held for Sale and Discontinued Operations

The amendment clarifies circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and in circumstances which an entity no longer meets the criteria for held for distribution.

ii) IFRS 7 Financial Instruments

The amendment clarifies the applicability of the amendments to IFRS 7 Disclosure–Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements.

iii) IAS 19 Employee Benefits

The amendment clarifies the application of the requirements of IAS 19 Employee Benefits (2011) on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency.

4. New Accounting Policies (continued)

iv) IAS 34 Interim Financial Reporting

The amendment clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' and requires a cross reference.

v) IAS 27 Separate Financial Statements

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

vi) IFRS 11 Joint Arrangements

These amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to: (a) apply all of the business combinations accounting principles in IFRS 3 and other IFRS standards, except for those principles that conflict with the guidance in IFRS 11; and (b) disclose the information required by IFRS 3 and other IFRS standards for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).

vii) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

These amendments clarify the acceptable methods of depreciation and amortization.

viii) Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)

Materiality - These amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information (2) materiality considerations apply to all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

Statement of financial position and statement of profit or loss and other comprehensive income – The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance's on subtotals in these statements and (2) clarify that an entity's share of OCI or equity-accounted assets and joint ventures should be present in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

ix) IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in other Entities and IAS 28 Investments in Associates

Investment Entities Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12, and IAS 28 make changes aimed at clarifying the following aspects:

Exemption from preparing consolidated financial statements – The amendments confirm that the exemptions from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.

4. New Accounting Policies (continued)

A subsidiary providing services that relate to the parent's investment activities – A subsidiary that provided services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.

Application of the equity method b a non-investment entity investor to an investment entity investee – When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interest in subsidiaries.

Disclosures required – An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities as required by IFRS 12.

This standard is effective for reporting periods beginning on or after January 1, 2016.

Future accounting policies

The following accounting standards and amendments are effective for future periods. The impact of the adoption of the following pronouncements are currently being evaluated.

i) Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)

These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

These amendments are effective for reporting periods beginning on or after January 1, 2017.

ii) IFRS 9 Financial Instruments

This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch.

This standard is effective for reporting periods beginning on or after January 1, 2018.

4. New Accounting Policies (continued)

iii) IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service.

This standard is effective for reporting periods beginning on or after January 1, 2018.

iv) IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019.

5. Restricted cash on deposit

As at December 31, 2016, the Company has provided an assignment of cash totaling $300,000 (2015 - $300,000) as security on the irrevocable standby letter of credit for the Northwest Territories Exploration License 495 (see Note 16a).

6. Exploration and evaluation assets

As at December 31, 2016, exploration and evaluation assets consist of total costs incurred less impairments in the the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada and Montana, USA.

Cost		Canada		USA		Total
Balance at December 31, 2014	$	23,038,620	$	2,748,730	$	25,787,350
Additions		102,740		-		102,740
Recovery of costs		-		-		-
Balance, as at December 31, 2015		23,141,360		2,748,730		25,890,090
Additions		113,800		-		113,800
Balance at December 31, 2016	**$**	**23,255,160**	**$**	**2,748,730**	**$**	**26,003,890**

Accumulated Impairment		Canada		USA		Total
Balance, as at December 31, 2014	$	(16,122,160)	$	-	$	(16,122,160)
Impairments		(32,605)		(2,103,865)		(2,136,470)
Balance, as at December 31, 2015		(16,154,765)		(2,103,865)		(18,258,630)
Impairments		(787,000)		-		(787,000)
Balance at December 31, 2016	**$**	**(16,941,765)**	**$**	**(2,103,865)**	**$**	**(19,045,630)**

Carrying Value						
Balance at December 31, 2015	$	6,986,595	$	644,865	$	7,631,460
Balance at December 31, 2016	$	6,313,395	$	644,865	$	6,958,260

As at December 31, 2016, the Company completed a review of its undeveloped properties included in exploration and evaluation assets and determined that there was an impairment of $787,000 (2015 - $Nil) with respect to its properties in the Northwest Territories and $Nil (2015 - $2,103,865) with respect to it's properties in Montana.

The impairment charge at December 31, 2016 of $787,000 is related to its properties in the Central Mackenzie Valley, Northwest Territories and is made up of $597,000 of historic seismic costs and $190,000 for a license that IFR planned to relinquish. Subsequent to year end, IFR proceeded to relinquish this licence.

At December 31, 2015, due to decreased commodity prices and a decrease in land prices it was determined there was an impairment of $32,605 in Southern Alberta, Canada as the Company had no further plans to develop this area.

7. Property, plant and equipment

Cost	Petroleum and natural gas properties		Office furniture and equipment		Carrying Amount	
Balance, as at December 31, 2014	$	4,083,875	$	132,225	$	4,216,100
Additions		-		4,560		4,560
Balance at December 31, 2015		4,083,875		136,785		4,220,660
Additions		65,675		785		66,460
Change in decommissioning liability		125,000		-		125,000
Reclassified as assets held for sale		(4,274,550)		-		(4,274,655)
Balance at December 31, 2016	**$**	**-**	**$**	**137,570**	**$**	**137,570**
Depletion and depreciation						
Balance, as at December 31, 2014	$	(3,093,665)	$	(89,775)	$	(3,183,440)
Depletion and depreciation		(154,100)		(9,265)		(163,365)
Impairment		(484,455)		-		(484,455)
Balance at December 31, 2015		(3,732,220)		(99,040)		(3,831,260)
Depletion and depreciation		(55,620)		(31,980)		(87,600)
Write-up of property and equipment		-		-		-
Reclassified as assets held for sale		3,787,840		-		3,787,840
Balance at December 31, 2016	**$**	**-**	**$**	**(131,020)**	**$**	**(131,020)**
Carrying Value						
Balance at December 31, 2015	$	351,655	$	37,745	$	389,400
Balance at December 31, 2016	$	-	$	6,550	$	6,550

As at December 31, 2016 an impairment of $Nil (2015 - $484,455) of petroleum and natural gas assets in Canada has been recorded to reflect the difference in the carrying value of the assets over the fair value of future reserves.

For impairment assessments of oil and gas properties, the Company estimates the recoverable amount using a discounted cash flow model based on an independent reserve report approved by the Board of Directors on an annual basis and a pre-tax discount rate. The recoverable amount was determined using a pre-tax discount rate of 10%. The recoverable amounts were calculated at December 31, 2016 using the following benchmark reference prices for the years 2017 to 2022:

	2017	2018	2019	2020	2021	2022	Thereafter
Alberta Bow River Hardisty Crude Oil ($C/Bbl)	$54.40	$58.90	$62.70	$67.30	$71.90	$73.30	2.0%

The results of the impairment test are sensitive to changes in any of the key judgments, such as a revision in reserves, a change in forecast commodity prices, expected royalties, future development capital expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment or reversals of impairment. At December 31, 2016, a 1% increase in the assumed discount rate would result in a decrease in the recoverable value of approximately $3,500 and a 5% decrease in the forecast commodity price estimated would result in a decrease in the recoverable value of approximately $31,300.

8. Payables and accruals

	December 31, 2016	December 31, 2015
Trade payables and accruals	$ 172,280	$ 175,430
Accrued liabilities	286,440	280,940
	458,720	456,370
Reclassified as non-current liabilities held for sale	(100,820)	-
	$ 357,900	$ 456,370

Included in trade payables at December 31, 2016 is $1,655 with respect to the Company's Mexican subsidiary Frontera (December 31, 2015 - $3,640).

9. Decommissioning liabilities

The total future decommissioning liabilities result from the Company's net ownership interest in wells and facilities. Management estimates of the total undiscounted amount of future cash flows required to reclaim and abandon wells and facilities as at December 31, 2016 is $1,238,000 (December 31, 2015 - $1,048,500) with abandonment dates ranging from 1 to 6 years (December 31, 2015 – 1 to 6 years). The liability was determined using an average risk-free rate of 0.67% (December 31, 2015 – 0.91%) and an inflation rate of 2% (December 31, 2015 – 2%).

The Company's decommissioning liabilities changed as follows:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 1,172,685	$ 1,203,235
Revisions	125,000	-
Liabilities settled	(103,580)	(43,450)
Accretion expense	8,500	12,900
Balance, end of year	1,202,605	1,172,685
Current portion	-	(92,500)
Reclassified as non-current liabilities held for sale	(1,202,605)	-
Long term portion	$ -	$ 1,080,185

10. Income taxes

a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 27% (2015- 26.01%) to loss before income taxes. This difference results from the following items:

	2016	2015
Loss before income taxes	**$ (3,252,130)**	$ (4,394,775)
Expected tax recovery of combined federal and provincial statutory rates	**(878,000)**	(1,143,000)
Jurisdictional rate difference	**(15,000)**	(24,000)
Increase (decrease) resulting from:		
Future tax impact on current temporary differences	**-**	(40,000)
Change in enacted tax rates	**-**	(43,000)
Share based compensation	**67,000**	71,000
Other	**47,000**	4,000
	(779,000)	(1,175,00)
Unrecognized deferred tax asset	**779,000**	1,175,000
	$ -	$ -

b) Deferred income taxes consist of the following temporary differences and other items

	December 31, 2016	December 31, 2015
Excess of tax pools over carrying value of property and equipment	**$ 1,418,000**	$ 1,254,000
Asset retirement obligations	**325,000**	317,000
Foreign loss carry-forwards	**156,000**	151,000
Non-capital loss carry-forwards	**2,209,000**	1,607,000
	4,108,000	3,329,000
Unrecognized deferred tax asset	**(4,108,000)**	(3,329,000)
	$ -	$ -

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately $7,812,000 (2015- $5,992,000) in Canada. Unless sufficient taxable income is earned, these losses will expire as follows:

	Non-capital
2026	$ 253,000
2027	620,000
2028	431,000
2029	942,000
2030	1,253,000
2031	623,000
2032	505,000
2033	140,000
2034	350,000
2035	875,000
2036	1,820,000
	$ 7,812,000

In addition, the Company has $12,100,000 of capital losses that can be carried forward indefinitely and used to offset future taxable capital gains.

11. Share Capital

a) Authorized:
Unlimited common shares, Unlimited preferred shares

	Number of Shares	Issue Price	Amount ($)
Balance at December 31, 2014	66,378,965		$ 42,292,955
Shares issued via private placement (Note 11c(iii)	17,000,000	$0.065	1,105,000
Shares issued via private placement	2,161,880	$0.10	216,195
Value attributed to warrants			(273,835)
Share subscriptions receivable			(43,375)
Balance at December 31, 2015	85,540,845		$43,296,940
Shares issued via private placement (Note 11c) iv))	12,800,000	$0.125	1,600,000
Shares issued via exercise of stock options	450,000	$0.12	54,000
Contributed surplus transferred on exercise of stock options			34,440
Shares issued pursuant to finder's fee (Note 11a) (i))	1,250,000		187,500
Shares issued via exercise of warrants	650,000	$0.11	73,000
Contributed surplus transferred on exercise of warrants			25,310
Value attributed to warrants			(424,245)
Share issue costs			(22,875)
Share subscriptions collected			43,375
Share subscriptions receivable			(12,510)
Balance at December 31, 2016	**100,690,845**		**$44,854,935**

(i) On September 23, 2016, the TSX Venture approved the Company's issuance of 1,250,000 common shares at a price of $0.15 per share pursuant to a finder's fee agreement with Industria Miral, SA de CV. for the provision of services that assisted the Company in obtaining a joint venture partner and bidding on licenses in Mexico.

b) Contributed Surplus

	December 31, 2016	December 31, 2015
Balance, beginning of period	$ **11,870,515**	$ 11,325,360
Stock options granted	**247,385**	271,320
Exercise of stock options	**(34,440)**	-
Exercise of warrants	**(25,310)**	-
Value attributed to unit warrants	**424,245**	273,835
Balance, end of period	**$ 12,482,395**	$ 11,870,515

11. Share Capital (continued)

c) Share Purchase Warrants

	December 31, 2016		December 31, 2015	
	Number of Warrants	**Amount**	Number of Warrants	Amount
Balance, beginning of period (i), (ii)	**25,961,880**	**$ 487,315**	6,800,000	$ 213,480
Value attributed to extension of warrants (i, ii)	-	**23,050**	**-**	-
Issued (iii)	-	**-**	17,000,000	250,285
Issued (i, iv)	**6,400,000**	**401,195**	2,161,880	23,550
Exercised (iii, iv)	**(650,000)**	**(25,310)**	-	-
Balance, end of period	**31,711,880**	**$ 886,250**	25,961,880	$ 487,315

December 31, 2016	Warrants Outstanding			Warrants Exercisable	
Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Warrants Exercisable	Weighted Average Exercisable Price
$0.10	23,250,000	0.85	$ 0.10	23,250,000	$ 0.10
$0.13	2,161,880	0.83	$ 0.13	2,161,880	$ 0.13
$0.18	6,300,000	1.49	$ 0.18	6,300,000	$ 0.18
	31,711,880	0.98	$ 0.12	31,711,880	$ 0.12

A summary of the above purchase warrants outstanding at December 31, 2016 is set out below:

Number	Exercise price	Expiry date
3,450,000	$ 0.10	December 2, 2017
2,800,000	$ 0.10	December 2, 2017
17,000,000	$ 0.10	October 29, 2017
2,161,880	$ 0.13	October 29, 2017
6,300,000	$ 0.18	June 29, 2018
31,711,880		

(i) On November 6, 2013, the Company completed a non-brokered private placement, consisting of the issue of 4,000,000 units at a price of $0.065 per unit for gross proceeds of $260,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.10 for a period of two years from the date of issuance. All units were purchased by Directors of the Company.

In November 2014, the Company granted a one-year extension of these warrants to November 16, 2016. In January 2016, the Company granted an extension of these warrants to December 2, 2017.

11. Share Capital (continued)

c) Share Purchase Warrants (continued)

The weighted average fair market value of warrants granted in 2013 was $ 0.06, and the weighted average fair market value of these warrants per extension was $0.01. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	January 2016, Extension	November 2014, Extension	December 31, 2013
Risk-free interest rate	0.43%	1.05%	1.11%
Forfeiture rate	0.00%	0.00%	0.00%
Expected life of warrants	I year	2 years	2 years
Volatility	81%	69%	101%

On October 4, 2016 Company issued 275,000 common shares at $0.10 per share pursuant to the exercise of these share purchase warrants.

(ii) On October 29, 2014, the Company completed a non-brokered private placement, consisting of the issue of 2,800,000 units at a price of $0.065 per unit for gross proceeds of $182,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.10 for a period of two years from the date of issuance. Directors of the Company purchased all of the units.

In January 2016, the Company granted an extension of these warrants to December 2, 2017.

The weighted average fair market value of warrants granted was $ 0.01, and the weighted average fair market value of these warrants per extension was $0.02. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	January 2016, Extension	December 31, 2014
Risk-free interest rate	0.43%	1.05%
Forfeiture rate	0.00%	0.00%
Expected life of warrants	1 year	2 years
Volatility	81%	69%

(iii) On October 29, 2015, the Company completed a non-brokered private placement, consisting of the issue of 17,000,000 units at a price of $0.065 per unit for gross proceeds of $1,105,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.10 for a period of two years from the date of issuance.

In addition, due to an oversubscription of funds, the company closed a second tranche of units consisting of 2,161,880 Units at a price of $0.10 for gross proceeds of $216,188. Each Unit consists of one common share of the Company and one common share purchase warrant. Each Warrant will entitle the holder thereof to purchase one common share at a price of $0.13 for a period of two years from the date of issuance.

11. Share Capital (continued)

c) Share Purchase Warrants (continued)

The weighted average fair market value of warrants granted was $ 0.0135. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2015
Risk-free interest rate	0.62%
Forfeiture rate	0.00%
Expected life of warrants	2 years
Volatility	71.87%

At December 31, 2015, $43,375 of the proceeds had not been received and were recorded as share subscriptions receivable. These funds were received during the year ended December 31, 2016.

(iv) On June 29, 2016, the Company completed a non-brokered private placement, consisting of the issue of 12,800,000 units at a price of $0.125 per unit for gross proceeds of $1,600,000. Each Unit consists of one common share of the Company and one half common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.18 for a period of two years from the date of issuance.

The weighted average fair market value of warrants granted was $ 0.049. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2016
Risk-free interest rate	0.48%
Forfeiture rate	0.00%
Expected life of warrants	2 years
Volatility	87.62%

At December 31, 2016, $12,510 of the proceeds had not been received and were recorded as share subscriptions receivable. These funds were received subsequent to December 31, 2016.

d) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Company. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2016, 9,236,500 common shares were reserved for issuance under the plan. Options granted under the plan vest upon granting and have a term of five years to expiry.

11. Share Capital (continued)

d) Stock options (continued)

Outstanding and exercisable

	December 31, 2016 Number of Options		December 31, 2016 Weighted Average Exercise Price	December 31, 2015 Number of Options		December 31, 2015 Weighted Average Exercise Price
Balance, beginning of period	**8,356,500**	**$**	**0.11**	6,356,500	$	0.10
Granted	**2,330,000**	**$**	**0.14**	4,000,000	$	0.12
Expired	**(1,000,000)**	**$**	**0.10**	(2,000,000)	$	0.10
Exercised	**(450,000)**	**$**	**0.12**	-	$	-
Balance, end of period	**9,236,500**	**$**	**0.12**	8,356,500	$	0.11

December 31, 2016	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercisable Price
$0.10	3,706,500	2.37	$ 0.10	3,706,500	$ 0.10
$0.13 - $0.15	5,530,000	3.97	$ 0.14	5,530,000	$ 0.14
	9,236,500	3.45	$ 0.12	9,236,500	$ 0.12

During the year ended December 31, 2016, the Company granted 2,330,000 options (2015 - 4,000,000). Total compensation expense recorded in respect of these options was $247,385 (2015 - $271,320). The weighted average fair market value of options granted in the period was $0.08 (2015 - $0.07) per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2016	**December 31, 2015**
Risk-free interest rate	0.63%	0.71%
Forfeiture rate	2.00%	8.00%
Expected life of options	5 years	5 years
Volatility	96.77%	83.40%
Dividend yield rate	0%	0%
Share price	$0.15	$0.11

12. Capital Disclosures

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2016, the Company's capital as defined above is as follows:

	December 31, 2016	December 31, 2015
Working capital balances included:		
Cash and cash equivalents	**$ 1,944,420**	$ 2,240,470
Restricted cash	**300,000**	300,000
Payables and accruals	**(357,900)**	(456,370)
Current portion of asset decommissioning liabilities	**-**	(92,500)
	$ 1,886,520	$ 1,991,600

The Company is in the business of oil and gas exploration in Canada, the United States and Mexico. Management determines the Company's capital structure and makes adjustments to it based on funds available to the Company in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors has not established quantitative return on capital criteria for capital management but rather relies upon the expertise of the management team to sustain the future development of the business.

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any revenue. The Company does earn revenue from properties owned in Alberta. The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs. The Company will spend existing working capital and will seek additional financing as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential.

Historically, the Company has relied on proceeds from the sale of its common shares to fund its operations. In order to accelerate the Company's current exploration programs, the Company may require additional capital. The timing, pace, scope and amount of the Company's capital expenditures is largely dependent on the operators' capital expenditure programs and the availability of capital to the Company.

The Company may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional common shares, preferred shares or debt securities, project financing, sale of property interests, or other arrangements, all of which may dilute the interest of the Company's existing shareholders. In the current economic environment, there can be no assurances that the Company can raise capital through the sale of its shares.

13. Per share

	2016	2015
Net loss from continuing operations	**$ (3,055,880)**	$ (3,763,380)
Weighted average number of shares	**92,676,460**	69,686,355
Basic loss per share from continuing operations	**$ (0.03)**	$ (0.05)
Net loss from discontinued operations	**$ (196,250)**	$ (631,395)
Weighted average number of shares	**92,676,460**	69,686,355
Basic loss per share from discontinued operations	**$ (0.00)**	$ (0.01)
Net loss	**$ (3,252,130)**	$ (4,394,775)
Weighted average number of shares	**92,676,460**	69,686,355
Basic loss per share	**$ (0.03)**	$ (0.06)

The Company has dilutive instruments outstanding, which consist of stock options and warrants. The dilutive impact of these instruments using the treasury stock method results in anti-dilution as a result of the Company incurring losses during the years presented. As a result, diluted loss per share and the impact of these instruments on the weighted average number of shares outstanding is not presented in the financial statements.

14. Related party transactions

During 2016, the Company paid compensation to key executives as follows:

	2016	2015
Executive officers – salaries	**$ 818,750**	$ 140,000
Executive officers and directors – consulting fees	**28,200**	393,100
Stock based compensation	**74,845**	42,635
Royalty incentive program	**12,670**	21,870
	$ 934,465	$ 597,605

At December 31, 2016, $26,980 (December 31, 2015 – $17,125) was included in payables and accruals owing to related parties.

Also, included in receivables at December 31, 2016 is $164,810 (December 31, 2015 - $200,690) representing amounts for reimbursement of overhead expenses owing from TE Corporation, in which the Company's 99.80% owned Mexican subsidiary, Frontera, has a 50% shareholding.

The above transactions were incurred in the normal course of operations of the Company and have been recorded at the exchange amounts that were established and agreed upon by the related parties.

15. Segmented information

The Company's activities are conducted in three geographic segments: Canada, USA and Mexico. All activities relate to exploration for and development of petroleum and natural gas resources.

a) Loss

Year ended December 31, 2016

	Canada	U.S,	Mexico	Total
Interest income	$ 15,030	$ -	$ -	$ 15,030
Foreign exchange gain (loss)	(26,050)	-	(3,385)	(29,435)
	(11,020)	-	(3,385)	(14,405)
Expenses				
General and administration	1,256,785	-	13,770	1,270,555
Pre- exploration costs	21,380	-	237,240	258,620
Depletion and depreciation	31,550	-	430	31,980
Impairment	787,000	-	-	787,000
Finder's Fee	187,500	-	-	187,500
Share based compensation	247,385	-	-	247,385
Loss on equity investment	-	-	258,435	258,435
	2,531,600	-	509,875	3,041,475
Net loss and comprehensive loss from continuing operations	(2,542,620)	-	(513,260)	(3,055,880)
Net loss from discontinued operations	(196,250)	-	-	(196,250)
Net loss and comprehensive loss	$ (2,738,870)	$ -	$ (513,260)	$ (3,252,130)

Year ended December 31, 2015

	Canada	U.S,	Mexico	Total
Interest income	$ 19,325	$ -		$ 19,325
Foreign exchange gain (loss)	15,435	-	(445)	14,990
	34,760	-	(445)	34,315
Expenses				
General and administration	747,695	-	3,165	750,860
Pre exploration costs	40,230	-	499,385	539,615
Depletion and depreciation	9,265	-	-	9,265
Impairments	32,605	2,103,865	-	2,136,470
Stock based compensation	271,320	-	-	271,320
Loss on equity investment	-	-	90,165	90,165
	1,101,115	2,103,865	592,715	3,797,695
Net loss and comprehensive loss from continuing operations	(1,066,355)	(2,103,865)	(593,160)	(3,763,380)
Net loss from discontinued operations	(631,395)	-	-	(631,395)
Net loss and comprehensive loss	$(1,697,750)	$(2,103,865)	$ (593,160)	$ (4,394,775)

15. Segmented information (continued)

b) Investment in Subsidiaries

In 2015 the Company, through its Mexican subsidiary Petro Frontera S.A.P.I de CV (Frontera) invested in a 50% interest in a Mexican associated company TE Corporation. The investment is accounted for using the equity method.

The Company's investment in TE Corporation is as follows:

	December 31, 2016	December 31, 2015
Balance, beginning of year	**$ 139,785**	$ -
Contributions	**484,430**	229,950
Share of losses for the year	**(258,435)**	(90,165)
Balance, end of year	**$ 365,780**	$ 139,785

16. Commitments and contingencies

a) The Company has issued a letter of credit for its share of a refundable deposit on Northwest Territories exploration license. The letter of credit is secured by a total assignment of cash of $300,000 (December 31, 2015 – $300,000). The Company is contingently liable under the letter of credit for $300,000 (December 31, 2015 - $300,000). The deposit will be reduced by $1 for every $4 spent on qualified expenditures on the exploration license.

b) Effective December 1, 2016 the Company is party to an agreement to lease its new premises until June 29, 2019. The annual rent of the premises will consist of minimum rent plus occupancy costs. Minimum rent plus occupancy costs to the end of the lease is as follows:

2017	$ 49,000
2018	$ 49,000
2019	$ 25,000

c) On August 25, 2016, the Company's 50% owned Joint Venture met all of the terms and conditions and signed a license contract with the Mexico Comision Nacional de Hidrocarburos (CNH) for the Onshore Oil and Gas Development Block 24, Tecolutla, granting TE Corporation the right to develop and produce hydrocarbons. As required by the CNH, TE Corporation secured from a Mexican institution a US$1,764,100 performance bond toward the guarantee of performance of the minimum work programs. Upon completion of the minimum work program, the performance bond will be returned. TE Corporation is required to fulfil the Minimum Work Program by performing any combination of tasks to earn 4,600 Work Units. TE Corporation intends to drill one well to earn 4,000 Work Units and conduct a work-over and a combination of other activities, if required, to earn up to 600 Work Units to satisfy the Minimum work requirement under the License Contract. The Company's 50% share of these activities has been budgeted as CAD $2.6M. In addition, the Company has guaranteed its share of the performance bond secured by TE Corporation (see Note 20 (b)).

16. Commitments and contingencies (continued)

d) The Company has established a Royalty Incentive Agreement for certain officers who are also Directors and consultants. Under the plan, the compensation committee issues units and pays royalties on an annual basis to employees, consultants and directors. The units entitle the holder to receive an annual payment based on 2% of the Company's annual gross oil and gas production revenue, net of transportation and processing fees from licenses and lands owned by the Company. Under the terms of the agreement, once the Company has recovered payout of 100% of its cumulative annual capital expenditures from licenses and lands owned by the Company, the payment to employees, consultants and directors is based on 4% of the Company's annual production revenue less transportation and processing fees. At December 31, 2016, payout of 100% of cumulative annual capital expenditures had been reached on the Alderson property. Costs of $14,675 (2015 - $21,870) were booked with respect to this plan.

17. Supplemental cash flow information

Changes in non-cash working capital items from continuing operations increase (decrease) cash and cash equivalents as follows:

		2016		2015
Receivables	$	22,150	$	(212,370)
Prepaids and reclamation deposits		364,755		(33,930)
Payables and accruals		(45,790)		6,895
	$	341,115	$	(239,405)
Operating activities	$	341,115	$	(239,405)
Investing activities		-		-
Financing activities		-		-
	$	341,115	$	(239,405)
Taxes paid	$	-	$	-
Interest paid	$	-	$	-
Cash and cash equivalents are comprised of:				
Cash on hand - Canada	$	224,800	$	1,209,935
Cash on hand - Mexico	$	14,120	$	30,535
Short term bankers' acceptances (bearing interest rates ranging from 0.65% -1.10%		1,705,500		1,000,000
	$	1,944,420	$	2,240,470
Non- cash transactions:				
Shares issued for finders' fee	$	187,500	$	-
Fair value assigned to unit warrants	$	424,245	$	273,835

18. Discontinued Operations

In December 2016, the Company entered into a preliminary agreement to sell its 100% interest in its oil properties in south east Alberta, Canada. On April 14, 2017, the Company completed the sale for consideration of $1 and the reservation and granting to the Company of a 2.5% gross overriding royalty as pursuant to a Gross Overriding Royalty Agreement. The sale is subject to AER approval.

The Company's operations for the year ended December 31, 2016 and 2015 have been presented as discontinued operations in these financial statements.

A summary of discontinued operations is as follows:

	2016	2015
Oil revenues, net	**$ 380,115**	$ 572,070
Less: royalties	**(94,385)**	(132,130)
	285,730	439,940
Expenses		
Field operating costs	**417,860**	419,880
Accretion	**8,500**	12,900
Depletion and depreciation	**55,620**	154,100
Impairments	**-**	484,455
	481,980	1,071,335
Net loss from discontinued operations	**$ (196,250)**	$ (631,395)

The Company's net non-current assets and liabilities held for sale at December 31, 2016 are as follows:

	2016
Non-current assets held for sale	
Receivables	**$ 15,440**
Petroleum and natural gas properties	**486,710**
	502,150
Non-current liabilities held for sale	
Payables and accruals	**(100,820)**
Decommissioning liabilities	**(1,202,605)**
	(1,303,425)
Net non-current liabilities held for sale	**$ (801,275)**

19. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, restricted cash on deposit, receivables, and payables and accruals. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

a) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A portion of the Company's financial assets at the balance sheet date arise from crude oil sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

At December 31, 2016, substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its oil through one marketer. The increased risk arising from exposure to one entity is mitigated by the fact that oil production is not a significant part of the Company's business at this time as the Company is engaged primarily in the exploration for and development of petroleum and natural gas reserves.

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets. There are no material financial assets that are past due. During 2016, there was no allowance for doubtful accounts recorded as all amounts outstanding at December 31, 2016 are deemed collectible.

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to the statement of loss and comprehensive loss. If the Company subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance account. At December 31, 2016, the Company's allowance for doubtful accounts balance was $Nil (2015 – $Nil).

b) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2016, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year-end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate risk.

19. Financial Instruments (continued)

c) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company has financial instruments denominated in US dollars and Mexican pesos. The Company's management monitors the exchange rate fluctuations on a regular basis. The Company does not use currency derivative instruments to manage the Company's exposure to foreign currency fluctuations.

At December 31, 2016, the carrying amount of the Company's Mexican Pesos denominated net monetary assets was approximately $190,000 Pesos. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the Mexican Pesos at December 31, 2016 would have affected the value of such balances by approximately $1,900 CAD.

At December 31, 2016, the carrying amount of the Company's U.S. Dollar denominated net monetary assets was approximately $130,000USD. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the U.S. Dollar at December 31, 2016 would have affected the value of such balances by approximately $1,300 CAD.

d) Liquidity Risk

Liquidity risk includes the risk that:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including, amounts projected to complete budgeted capital expenditures are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, opening cash and cash equivalents balance, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, and cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and access to equity markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

19. Financial Instruments (continued)

e) Fair value of financial instruments

The Company classifies the fair value of financial instruments at fair value through profit or loss according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2016 and 2015 cash and cash equivalents and restricted cash on deposit have been classified as Level 1.

20. Subsequent events

a) On January 5, 2017, the Company announced the closing of an Account Performance Security Guarantee (APSG) facility of $882,050US with Export Development Canada (“EDC”). The APSG facility (“Guarantee Facility”) is provided as 50% of a performance bond issued by the Company’s 50% owned joint venture company TE Corporation (see Note 16(c)).

b) On March 3, 2017, the Company closed a private placement for gross proceeds of $5,059,085, (net $4,911,340) which consisted of the issuance of 18,068,160 common shares at a price of $0.28 per common share. All shares issued under the brokered placement and non-brokered placement are subject to restrictions on resale expiring July 4, 2017.

c) In April 2017 the Company terminated its Royalty Incentive Program and the participants of the Company’s Royalty Incentive Program agreed to surrender and cancel any and all Royalty Units held.

21. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.