

NOTICE OF NO AUDITOR REVIEW – CONDENSED FINANCIAL STATEMENTS

THE ACCOMPANYING CONDENSED FINANCIAL STATEMENTS OF THE COMPANY HAVE BEEN PREPARED BY AND ARE THE RESPONSIBILITY OF THE COMPANY'S MANAGEMENT. THE COMPANY'S INDEPENDENT AUDITOR HAS NOT PERFORMED A REVIEW OF THESE CONDENSED FINANCIAL STATEMENTS IN ACCORDANCE WITH STANDARDS ESTABLISHED BY THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS FOR A REVIEW OF CONDENSED FINANCIAL STATEMENTS BY AN ENTITY'S AUDITOR

Condensed Financial Statements

March 31, 2015

McChip Resources Inc.
Condensed Statements of Financial Position
(expressed in Canadian dollars)

	As at March 31 2015	As at December 31 2014
Assets		
Current assets		
Cash	\$ 149,040	\$ 199,690
Accounts receivable (Note 14)	174,156	91,618
Marketable securities (Note 3, 8, 9)	857,498	848,932
	1,180,694	1,140,240
Non current assets		
Investment in petroleum interests (Note 16)	1,814,673	1,781,242
Investment in other companies (Note 4)	998,101	847,761
Property, plant and equipment	378	1,513
	\$ 3,993,846	\$ 3,770,756
Liabilities		
Current liabilities		
Loans payable (Note 9)	\$ 221,590	\$ 184,200
Accounts payable and accrued liabilities (Note 14)	241,385	197,715
Income taxes payable (Note 13)	4,456	-
	467,431	381,915
Non current liabilities		
Deferred income tax liability (Note 13)	203,304	187,684
	670,735	569,599
Shareholders' Equity		
Share capital (Note 10)	5,246,662	5,246,662
Contributed surplus (Note 11, 12)	755,200	755,200
Retained earnings (deficit)	(2,678,751)	(2,800,705)
	3,323,111	3,201,157
	\$ 3,993,846	\$ 3,770,756

Commitments (Note 15)

Approved on behalf of the Board:

"R D McCloskey"

R D McCloskey, Director

"E G Dumond"

E G Dumond, Director

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

McChip Resources Inc.
Condensed Statements of Changes in Shareholders' Equity
(expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Surplus (Deficit)	Shareholders' Equity
Balance at December 31, 2014	5,660,096	\$ 5,246,662	\$ 755,200	\$ (2,800,705)	\$ 3,201,157
Net income	-	-	-	121,954	121,954
Balance at March 31, 2015	5,660,096	\$ 5,246,662	\$ 755,200	\$ (2,678,751)	\$ 3,323,111
Balance at December 31, 2013	5,660,096	\$ 5,246,662	\$ 755,200	\$ (2,077,413)	\$ 3,924,449
Net income	-	-	-	216,300	216,300
Balance at March 31, 2014	5,660,096	\$ 5,246,662	\$ 755,200	\$ (1,861,113)	\$ 4,140,749

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

McChip Resources Inc.
Condensed Statements of Operations and Comprehensive Income
(expressed in Canadian dollars)

	For the quarter ended March 31	
	2015	2014
Revenue		
Investment in petroleum interests	\$ 10,241	\$ 122,025
Realized gain on sale of investment in other companies and marketable securities	-	996
Unrealized appreciation of investment in other companies and marketable securities	121,321	196,999
Other Income	15,234	15,139
Royalty	128,314	54,061
	275,110	389,220
Expenses		
Administrative	131,946	132,926
Depreciation	1,134	1,134
	133,080	134,060
Income before provision for income taxes	142,030	255,160
Provision for income taxes		
Current (Note 13)	4,456	13,496
Deferred (Note 13)	15,620	25,364
	20,076	38,860
Net income and comprehensive income	\$ 121,954	\$ 216,300
Income per share		
Basic and diluted	\$ 0.02	\$ 0.04
Weighted average number of common shares outstanding		
Basic	5,660,096	5,660,096

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

McChip Resources Inc.
Condensed Statements of Cash Flows
(expressed in Canadian dollars)

	For the quarter ended March 31	
	2015	2014
Operating activities		
Net income and comprehensive income	\$ 121,954	\$ 216,300
Items not affecting cash:		
Deferred income taxes expense	15,620	25,364
Realized loss on sale of marketable securities and investments in other companies	-	(996)
Depreciation	1,134	1,134
Unrealized appreciation of investment in other companies and marketable securities	(121,321)	(196,999)
	17,387	44,803
Decrease (increase) in accounts receivable	(82,538)	5,216
Increase in income taxes payable	4,456	13,496
Increase in accounts payable and accrued liabilities	43,670	3,550
Cash provided by (used in) operating activities	(17,025)	67,065
Investing activities		
Investment in petroleum interests	(33,431)	(19,893)
Sale of marketable securities and investments	-	145,747
Purchase of marketable securities	(36,490)	(164,619)
Purchase of investments in other companies	(1,094)	-
Cash used in investing activities	(71,015)	(38,765)
Financing activities		
Increase (decrease) in bank indebtedness	-	(35,000)
Increase in loans payable	37,390	18,760
Decrease in accrued liabilities - non current	-	(5,365)
Cash provided by (used in) financing activities	37,390	(21,605)
Net increase (decrease) in cash	(50,650)	6,695
Cash, beginning of year	199,690	143,491
Cash, end of period	\$ 149,040	\$ 150,186
Interest paid during the period	\$ 1,853	\$ 3,397

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

1. Nature of Operations

McChip Resources Inc. ("McChip" or "the Company") was incorporated in the Province of Ontario, Canada by letters patent dated March 8, 1935, as Madsen Red Lake Gold Mines Limited. Pursuant to Articles of Amendment dated May 21, 1981, the name of the Company was changed to McChip Resources Inc. and the common shares are listed on the TSX Venture Exchange, symbol MCS. McChip invests in petroleum interests in Western Canada, as well as direct and indirect interests in minerals. The indirect interests are in the form of marketable securities and investment in other companies which are listed on recognized exchanges. The registered office of the Company is Suite 1214, 120 Adelaide Street West, Toronto, ON, M5H 1T1.

2. Summary of Significant Accounting Policies**a) Statement of compliance**

The condensed financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The condensed financial statements as at and for the three months ended March 31, 2015 (with comparatives) were approved and authorized for issue by the board of directors on May 26, 2015.

b) Basis of preparation

The condensed financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

The condensed financial statements are prepared on the historical cost basis except that financial instruments classified as fair value through profit or loss which are stated at their fair value, and have been prepared using the accrual basis of accounting except for cash flow information.

The accounting policies have been applied consistently to all periods presented in the condensed financial statements.

c) Cash

Cash includes balances held with a Canadian chartered bank and brokerage accounts.

d) Revenue recognition

The operators of the various petroleum interests recognize the revenue from the sale of petroleum and natural gas when the product passes through the sales outlet meter of the processing plants. The Company recognizes the earnings from its investment in petroleum interests to the extent it is earned and receivable from these operations. The Company does not operate any of the interests it has in oil and natural gas.

Royalty income is recognized as earned as per the terms of the overriding royalty agreement.

Investment transactions are accounted for as of the settlement date. Realized gains and losses from investment transactions are calculated on an average cost basis. The difference between fair value and average cost is included in the Statements of Operations and Comprehensive Income as part of the "Unrealized appreciation of investment in other companies and marketable securities".

e) Financial instruments**Financial assets**

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;

- it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking;

or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available for sale

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. They are measured at fair value with the resultant gain or loss recognized in other comprehensive income. Financial assets classified as available for sale are subsequently re-measured if they have quoted market value in an active market or if fair value can be reliably determined. Otherwise, these investments are carried at cost and are written down and recognized in profit or loss when there is objective evidence of impairment.

Financial liabilities

FVTPL

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as FVTPL. In addition, any other financial liabilities can be designated by the Company upon initial recognition as FVTPL. These instruments are subsequently re-measured at fair value with the change in fair value recognized in net income during the period.

Other financial liabilities

Non-derivative financial liabilities that have not been designated as FVTPL are classified as other liabilities, which are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial instrument</u>	<u>Classification</u>
Cash	FVTPL
Accounts receivable	Loans and receivables
Marketable securities	FVTPL
Investment in petroleum interests	Available for sale
Investment in other companies	FVTPL or available for sale
Bank indebtedness	Other financial liabilities
Loans payable	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities

f) Marketable securities

Marketable securities are carried at fair value. These marketable securities are in shares of companies listed on a recognized exchange and are predominately natural resource based. The intention, on acquisition, is to hold these securities for a period of less than twelve months.

g) Investment in other companies

Investments in other companies are carried at fair value unless they are investments without an active market and fair value is not readily determinable in which case they are carried at cost unless there is objective evidence of an impairment. These investments are in shares or other financial instruments of companies predominately listed on a recognized exchange and are natural resource based. The intention, on acquisition, is to hold these investments for periods, more likely than not, in excess of twelve months.

h) Investment in petroleum interests

This investment represents participation agreements with Signalta Resources Limited ("Signalta"), a Canadian controlled private company and other similar operators based in Calgary, Alberta. As this amount represents residual interests it has been considered as an investment in equity interests. Typically, the Company's proportionate share of specific yearly investment programs would range from less than 1% to 1%. The Company, by agreement, does not exercise joint control or significant influence over Signalta, as operator of the petroleum participations.

Accordingly, this investment has been classified as an available for sale financial instrument. As this investment has no quoted market price in active markets and its fair value cannot be reliably measured, it is recorded at cost, unless there is objective evidence of impairment.

i) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the Statements of Operations and Comprehensive Income. Current tax expense 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 assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the substantive enactment occurs.

A deferred tax asset is recognized 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 deferred tax asset will be recovered, the deferred tax asset is reduced.

j) Use of estimates

The preparation of the financial statements with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from those estimates.

Accounts which require management to make material estimates in determining amounts recorded include impairment of petroleum interests, securities held at cost, deferred income taxes and share-based compensation.

Fair value of investment in securities not quoted in an active market:

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values and cost may be considered the best approximation of fair value.

Fair value of purchase warrants:

The fair value of purchase warrants are valued either at their quoted market values if traded on an active market, or valued through specified valuation models based on specific criteria. These models may range from using the intrinsic value model to using the Black-Scholes model to estimate fair value.

k) Accounting for share-based compensation

The grant date fair value of options allotted to directors, officers, and employees is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the grantee becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

The fair value of share options is measured at the grant date, using an option pricing model that takes into account the exercise price, the term of the option, the current share price, the expected volatility of the underlying shares, the expected dividend yield, the forfeiture and the risk free rate for the term of the option. If the options are exercised, contributed surplus will be reduced by the applicable amount with a corresponding charge to share capital.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

l) Income (loss) per share

The Company presents basic and diluted income (loss) per share ("IPS") ("LPS") data for its common shares. Basic IPS / (LPS) is calculated by dividing the income loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted IPS / (LPS) is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all potential dilutive common shares, which comprise share options granted to directors, officers, employees, consultants and other service providers of the Company. The effect on the diluted IPS / (LPS) on the exercise of the share options described in Note 12 would be anti-dilutive.

m) Impairment**Financial assets**

A financial asset not carried at FVTPL is assessed annually to determine whether there is any indication that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset that is measured at amortized cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit and loss.

Financial assets with similar characteristics that are managed and evaluated as a portfolio are tested for impairment as a group. The remaining financial assets are assessed on an individual basis. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit and loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in comprehensive income to profit or loss. The amount of the cumulative loss that is recognized in other comprehensive income or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed annually to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then reduce the carrying amount of the other assets in the units (group of units) on a pro-rata basis.

In respect of other assets, impairment losses recognized in prior periods 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 depreciation or amortization, if no impairment loss had been recognized.

n) **Dividends**

Dividends on common shares are recognized in the financial statements in the period in which the dividends are approved by the Board of Directors.

o) **Recent Accounting Pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2012. Many are not applicable or do not have a significant impact on the Company and have been excluded from the table below. The following have been, and/or will be adopted as at the effective date listed.

	<u>Effective for Company</u>
IFRS 9, <i>Financial Instruments</i>	January 1, 2018
IFRS 10, <i>Consolidated financial statements</i>	January 1, 2013
IFRS 11, <i>Joint Arrangements</i>	January 1, 2013
IFRS 12, <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
IFRS 13, <i>Fair Value Measurement</i>	January 1, 2013
Amendments to IAS1, <i>Presentation of financial statements</i>	January 1, 2013

- (i) IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date of a mandatory adoption of IFRS 9 is January 1, 2018.

- (ii) In May, 2014, the IASB issued IFRS 15, *Revenue* ("IFRS 15"). The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on/after January 1, 2017 and is to be applied using the retrospective or the modified transition approach.

3. **Marketable Securities**

The marketable securities on hand at March 31, 2015, had a fair value of \$857,498 and a cost of \$3,802,974 (December 31, 2014 - \$848,932 and \$3,766,485). These marketable securities are in shares of companies listed on a recognized exchange and are primarily natural resource based. Some of these marketable securities were pledged as security for the loans payable, see Notes 8 and 9. The intention, on acquisition, is to hold these securities for a period of less than twelve months.

4. **Investment in Other Companies**

The investment in other companies on hand at March 31, 2015, had a carrying value of \$988,101 and a cost of \$566,914 (December 31, 2014 - \$847,761 and \$565,819). These investments are in shares and other financial instruments of companies and are primarily natural resource based. The intention, on acquisition, is to hold these investments for periods, more likely than not, in excess of twelve months. The investment is comprised of available for sale securities in the amount of \$250,000 and fair value through profit or loss of \$748,101.

5. Capital Management

The Company's capital structure consists of its shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available, to support the core nature of its business. The Company maintains its capital structure by using internally generated funds as the need arises. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business. The Company is not subject to externally imposed capital requirements.

Management reviews its approach to capital management on an ongoing basis and believes that this approach is reasonable considering the relative size of the Company.

There were no changes in the Company's approach to capital management during this reporting period.

6. Financial Risk Factors

The Company's financial risk exposure and the impact of its financial instruments are summarized below:

Credit risk

The Company's credit risk is attributable to accounts receivable, certain investment in other companies and due from related parties. In the opinion of management the credit risk with respect to these instruments is low.

Liquidity risk

The Company ensures that there is sufficient cash and other short term assets readily convertible into cash in order to meet its liabilities when they come due. Additionally the Company has secured a short term working capital line of credit with its bank, at March 31, 2015 and December 31, 2014 the balance was nil. The Company has no long term credit facility, trade and other payables have maturity dates of less than sixty days and are subject to normal trade terms, other than the long term accrued liability. Management believes that the liquidity risk is low.

Interest rate risk

The Company has a bank credit facility for short term working capital purposes and loans payable to supplement its investment strategies. The facility exposes the Company to interest rate risk which fluctuates in accordance with market rates. Management believes that the interest rate risk to be low

Foreign currency risk

The Company is exposed to foreign currency risk. This would be in conjunction with its investments in currency of the United States of America. This is a negligible part of the Company's business and with the amount of foreign currency involved management considers the foreign currency risk to be low.

Commodity price risk

The Company is exposed to price risk with respect to the fluctuations in commodity prices.. The volatility of prices received by the operator for the oil and natural gas produced will affect the Company's available cash and profits.

Fair Value

Fair value is determined using the following methods and assumptions:

The carrying value of cash, accounts receivable and prepaid expenses, due from related parties, accounts payable and accrued liabilities, loans payable, and bank indebtedness approximate their fair value due to the relatively short periods to maturity of these instruments. The carrying value of the floating rate loans payable is assumed to approximate its fair value as interest is based on market related variable rates.

Marketable securities and investment in other companies, (except the available for sale investments carried at cost), are carried at fair value.

Sensitivity Analysis

As at March 31, 2015, had the prices on the respective stock exchanges for marketable securities and publicly held investments in other companies raised or lowered by 5%, with all other variables held constant, the equity of the Company would have increased or decreased by \$80,280 (December 31, 2014 - \$72,335).

Fair Value Hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in their measurement. The fair value hierarchy has the following levels:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the comparable asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

	Level 1	Level 2	Level 3	Total
2015				
Marketable Securities	\$ 857,498	\$ -	\$ -	\$ 857,498
Investment in other companies	\$ 748,101	\$ -	\$ -	\$ 748,101
Total	\$1,605,599	\$ -	\$ -	\$1,605,599

Included in investment in other companies is \$250,000 of available for sale securities recorded at cost.

	Level 1	Level 2	Level 3	Total
2014				
Marketable Securities	\$ 848,932	\$ -	\$ -	\$ 848,932
Investment in other companies	\$ 597,761	\$ -	\$ -	\$ 597,761
Total	\$1,446,693	\$ -	\$ -	\$1,446,693

Included in investment in other companies is \$250,000 of available for sale securities recorded at cost.

7. Royalty Interest

The Company signed a lease agreement effective September 19, 2008, with Potash Corporation of Saskatchewan Inc. ("PCS") granting PCS the right to mine potash from the Company's mineral leases in the Rocanville area of the Province of Saskatchewan. The royalties are based on a rate equivalent to the royalty rate payable to the Crown calculated on Potash Ore from time to time pursuant to the provision of the regulations under The Crown Minerals Act of the Province of Saskatchewan.

8. Bank Indebtedness

The Company has an operating line of credit in the amount of \$160,000 that bears interest at the annual rate of prime plus 0.5%. As at March 31, 2015 and December 31, 2014 the Company had no bank indebtedness. To support the line of credit, the Company had cash of \$145,908 and marketable securities having a fair value of \$34,760 respectively (December 31, 2014 cash of \$145,008, and marketable securities having a fair value of \$31,760) being held in safekeeping by the bank.

9. Loans Payable

The loans payable of \$221,590 represent broker margin accounts at March 31, 2015 (December 31, 2014 - \$184,200), and are secured by certain of the Company's marketable securities. Interest payable on the margin accounts are at the rates of prime plus 1.00% to prime plus 1.50% annually.

10. Share Capital

- a) Authorized: Unlimited common shares
b) Common shares issued:

	Number of shares	Value
Balance – March 31, 2015 and December 31, 2014	5,660,096	\$5,246,662

11. Contributed Surplus

The March 31, 2015 contributed surplus balance was \$755,200 (December 31, 2014 \$755,200). These amounts are related to stock options that have been granted or expired on the Company's common shares.

12. Share - based Compensation**Stock options**

The Company has adopted a Stock Option Plan (the "Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase shares, to directors, officers, employees and consultants of the Company.

Under the Plan, the aggregate number of shares to be issued upon the exercise of outstanding options granted hereunder may not exceed 560,000 shares.

Exercise prices shall be determined by the Board of Directors. The exercise price shall not be less than the closing price (the 'market price') of the shares on the exchange immediately preceding the day on which the Board grants the options and provides notice to the exchange. There is no vesting period and the term is five years for options granted.

Stock options on 400,000 common shares were outstanding as at March 31, 2015 and December 31, 2014. On September 1, 2011 stock options on 400,000 common shares were granted to the directors, officers, and employees of the Company at \$2.20 per share exercisable until August 31, 2016.

A summary of the status of the Company's outstanding stock options as of March 31, 2015 and December 31, 2014, and changes during the period ended on those dates are presented in the following table:

	2015		2014	
	Number	Exercise price	Number	Exercise price
Outstanding and exercisable, beginning	400,000	\$2.20	400,000	\$2.20
Exercised	Nil	Nil	Nil	Nil
Expired	Nil	Nil	Nil	Nil
Granted	Nil	Nil	Nil	Nil
Outstanding, ending and exercisable	400,000	\$2.20	400,000	\$2.20

There were no stock options exercised in 2015 or 2014.

Stock option disclosure

The fair market value of stock options granted on September 1, 2011, expiring August 31, 2016, was estimated using the Black Scholes fair value option-pricing model and the following assumptions were used:

Dividend yield	2.50%
Risk-free interest rate	3.00%
Expected stock volatility	67.60%
Weighted-average expected life in years	5.00
Weighted-average share price	\$2.20
Exercise price	\$2.20

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Volatility is based on the historical volatility of the Company's common shares. Changes to the estimates and assumptions may materially affect the calculations. The effect in accounting for the share-based compensation of \$472,000, determined for the year ended December 31, 2011, was the recognition of compensation expense and contributed surplus for options granted.

13. Income Taxes

The Company's income tax expense (recovery) is allocated as follows:

	March 31, 2015	December 31, 2014
Current tax (recovery) expense	\$ 4,456	\$(14,986)
Deferred tax (recovery) expense	15,620	37,532
	<u>\$20,076</u>	<u>\$ 22,546</u>

14. Related Party Transactions and Disclosure

Included in accounts receivable as at March 31, 2015, is an amount due from a related company that has a common director and officer of \$32,544 (December 31, 2014 - \$20,826). The amount receivable was the result of the Company's investment in petroleum interests which is in the normal course of its business.

Included in accounts receivable as at March 31, 2015, is an amount due from a related party who is a director and officer of the Company in the amount of \$4,210 (December 31, 2014 - \$3,511). Related party expenditures paid during the period ended March 31, 2015 were in the normal course of business, for consulting and management fees were \$15,003 (2014 - \$15,003). Administrative fees were paid to a related party in the amount of \$722 for the period ended March 31, 2015, (2014- \$2,672).

A recovery for office lease expenses from a related party of \$6,000 (2014 - \$6,000) was credited to administrative expenses.

Key management personnel, directors' compensation

	March 31, 2015	March 31, 2014
Short-term employee benefits	\$50,732	\$50,732
Directors fees	\$ 3,000	\$ 3,000
Share-based compensation	\$ nil	\$ nil

15. Commitments

The Company signed a five year lease arrangement for office space commencing July 1, 2011 expiring June 30, 2016. The Company is committed to annual lease payments plus operating costs as described below. By agreement, an annual subsidy of \$21,462 for the term of the lease has been received from a third party.

	Rent Expense	Subsidy
2015	\$30,720	\$(17,885)
2016	\$15,360	\$ nil

16. Investment in petroleum interests

Balance – December 31, 2013	\$1,850,477
Additions	149,076
Impairment loss recognized (i)	<u>(218,311)</u>
Balance – December 31, 2014	\$1,781,242
Additions	<u>33,431</u>
Balance – March 31, 2015	<u>\$ 1,814,673</u>

- (i) Based on a discounted cash flow analysis an impairment loss of \$218,311 was recognized in 2014. Key assumptions included a 10% discount rate on a twenty year cash flow projection utilizing the AECO–C spot price ranging from \$4.77 to \$6.63 per MCF for natural gas.

