# PETROMIN RESOURCES LTD.

Condensed Consolidated Interim Financial Statements

Period ended June 30, 2016

(Unaudited – Prepared by Management)

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**Period Ended June 30, 2016**
**(Unaudited – Prepared by Management)**

# NOTICE

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors. The Company's independent auditors have not performed a review of these financial statements.

# PETROMIN RESOURCES LTD.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited – Prepared by Management)

| | | June 30 2016 | | September 30 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | **$** | **9,217** | $ | 11,149 |
| Accounts receivable (Note 5) | | **-** | | 50,937 |
| | | **9,217** | | 62,086 |
| **Non-current** | | | | |
| Prepaid expenses | | **-** | | 9,714 |
| Equipment (Note 7) | | **2,478** | | 3,198 |
| Oil and Gas Interests (Note 8) | | **-** | | - |
| **Total assets** | **$** | **11,695** | $ | 74,998 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | **$** | **1,558,663** | $ | 1,331,591 |
| Accounts payable and accrued liabilities-related parties | | **650,800** | | 702,507 |
| | | **2,209,463** | | 2,034,098 |
| **Decommissioning liabilities (Note 10)** | | **185,455** | | 185,455 |
| **Equity** | | | | |
| Share capital (Note 11 ) | | **18,904,587** | | 18,774,399 |
| Share-based payment reserve (Note 11) | | **2,093,793** | | 2,093,793 |
| Convertible debentures (Note 13) | | **630,000** | | 630,000 |
| Deficit | | **(24,011,603)** | | (23,642,747) |
| **Total equity** | | **(2,383,223)** | | (2,144,555) |
| **Total liabilities and equity** | **$** | **11,695** | $ | 74,998 |

Nature and continuance of operations (Note 1)

**Approved by the Board of Directors and authorized for issue on August 26, 2016**

“A. Ross Gorrell” Director “Adrian Alan Wan Tsun Chan” Director

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

# PETROMIN RESOURCES LTD.

Condensed Consolidated Interim Statements of Changes in Equity
For the nine months ended June 30, 2016 and 2015
(Unaudited – Prepared by Management)

| | Number of shares | | Share capital | | Share-based payments reserve | | Convertible debentures (Note 12, 20) | | Deficit | | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, September 30, 2014** | **71,144,374** | **$** | **18,359,874** | **$** | **2,036,402** | **$** | **630,000** | **$** | **(21,399,234)** | **$** | **(372,958)** |
| Common shares issued | 13,088,333 | | 388,750 | | | | | | | | 388,750 |
| Share issuance costs-cash | | | (1,725) | | | | | | | | (1,725) |
| Share-based compensation | - | | - | | 29,743 | | - | | - | | 29,743 |
| Total comprehensive loss for the period | - | | - | | - | | - | | (598,100) | | (598,100) |
| **Balance, June 30, 2015** | **84,232,707** | **$** | **18,746,899** | **$** | **2,066,145** | **$** | **630,000** | **$** | **(21,997,334)** | **$** | **(554,290)** |
| Common shares issued | 500,000 | | 27,500 | | - | | - | | - | | 27,500 |
| Share issuance costs-cash | - | | - | | - | | - | | - | | - |
| Share-based compensation | - | | - | | 27,648 | | - | | - | | 27,648 |
| Total comprehensive loss for the period | - | | - | | - | | - | | (1,645,413) | | (1,645,413) |
| **Balance, September 30, 2015** | **84,732,707** | **$** | **18,774,399** | **$** | **2,093,793** | **$** | **630,000** | **$** | **(23,642,747)** | **$** | **(2,144,555)** |
| Common shares issued | 4,437,934 | | 133,138 | | - | | - | | - | | 133,138 |
| Share issuance costs-cash | | | (2,950) | | - | | - | | - | | (2,950) |
| Share-based compensation | - | | - | | - | | - | | - | | - |
| Total comprehensive loss for the period | - | | - | | - | | - | | (368,856) | | (368,856) |
| **Balance, June 30, 2016** | **89,170,641** | **$** | **18,904,587** | **$** | **2,093,793** | **$** | **630,000** | **$** | **(24,011,603)** | **$** | **(2,383,223)** |

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

# PETROMIN RESOURCES LTD.

Condensed Consolidated Interim Statements of Comprehensive Loss
For the nine months ended June 30, 2016 and 2015
(Unaudited – Prepared by Management)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **June 30, 2016** | June 30, 2015 | **June 30, 2016** | June 30, 2015 |
| **Revenue** | | | | |
| Petroleum and natural gas sales | $ **32,267** | $ 33,135 | $ **60,767** | $ 156,560 |
| Royalties | **1,761** | 922 | **2,168** | 8,587 |
| | **34,028** | 34,057 | **62,935** | 165,147 |
| **Expenses** | | | | |
| Operating and production | **27,305** | 140,399 | **94,642** | 323,535 |
| General and administrative (Note 12) | **43,234** | 112,884 | **332,969** | 383,767 |
| Share based payments | **-** | - | **2,950** | 29,743 |
| Depletion and depreciation | **240** | 6,582 | **720** | 24,645 |
| | **(70,779)** | (259,865) | **(431,281)** | (761,690) |
| Interest and financing charges | **4** | (520) | **4** | (1,560) |
| Gain (loss) on foreign exchange | **(514)** | 1 | **(514)** | 3 |
| **Comprehensive loss for the period** | $ **(37,261)** | $ (226,327) | $ **(368,856)** | $ (598,100) |
| **Basic and diluted loss per share** | **(0.000)** | (0.002) | **(0.004)** | (0.002) |

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

# PETROMIN RESOURCES LTD.

Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended June 30, 2016 and 2015
(Unaudited – Prepared by Management)

| | Nine months ended June 30, 2016 | Nine months ended June 30, 2015 |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Loss for the period | $ (368,856) | $ (598,100) |
| Add items not affecting cash | | |
| Accretion of asset retirement obligation | - | 1,560 |
| Depletion and amortization | 720 | 24,645 |
| Share base payments | - | 29,743 |
| Net changes in non-cash working capital items related to operations: | | |
| Accounts receivable | 50,937 | 111,853 |
| Prepaid | 9,714 | - |
| Payable to related parties | (51,707) | 38,304 |
| Accounts payable and accrued liabilities | 228,023 | 29,784 |
| Net cash (used in) operating activities | (131,169) | (362,211) |
| **Cash flows from (used in) investing activities** | | |
| Acquisition of equipment | - | - |
| Investment in oil and gas properties | (951) | (29,971) |
| Net cash (used in) investing activities | (951) | (29,971) |
| **Cash flows from (used in) financing activities** | | |
| Proceeds from subscription | 130,188 | 387,025 |
| Borrowing from the bank | - | - |
| Net cash from financing activities | 130,188 | 387,025 |
| **Change in cash** | (1,932) | (5,157) |
| **Cash, beginning of period** | 11,149 | 6,530 |
| **Cash, end of period** | $ 9,217 | $ 1,373 |
| **Supplementary Cash Flow Information** | | |
| Interest paid | $ 2,325 | $ 1,472 |
| Income taxes paid | - | - |
| **Supplementary Non-Cash Information** | | |
| Change in estimate relating to decommissioning liabilities | $ - | $ - |
| Accounts payable related to capitalized oil and gas properties | $ 176,610 | $ 180,158 |

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

**1. Corporate Information**

Petromin Resources Ltd. (the "Company") was incorporated under the laws of British Columbia in 1985, and is a publicly traded company with its shares listed on the TSX Venture Exchange. The Company is principally engaged in the acquisition, exploration and development of interests in oil and natural gas projects in Canada.

The address of the Company's corporate office and principal place of business is #550 – 800 West Pender Street, Vancouver B.C., Canada, V6C 2V6.

These condensed consolidated interim financial statements comprise the financial statements of Petromin Resources Ltd. and its wholly owned subsidiaries, International King Jack Hydrocarbons Inc. and Far East Oil & Gas Ltd. All inter-company balances and transactions have been eliminated upon consolidation.

The business of exploring and developing oil and natural gas properties involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable oil and natural gas operations. The recoverability of amounts shown for capitalized exploration and development costs is dependent on the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such properties at a profit. Changes in future conditions could require material write-downs of the carrying values of oil and natural gas interests.

Although the Company has taken steps to verify title to exploration and evaluation properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

At June 30, 2016, the Company had working capital deficiency of $2,200,246 (June 30, 2015 – $1,836,654) but has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the nine months ended June 30, 2016, the Company reported a comprehensive loss of $368,856 (June 30, 2015 – $598,100) and as at June 30, 2016 had an accumulated deficit of $24,011,603 (September 30, 2015 – $23,642,747).

The Company has financed its exploration activities and operations through equity issuances and expects to continue to do so to the extent such instruments are issuable under terms acceptable to the Company until such time as its operations provide positive cash flows. Accordingly, the Company's financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. Management believes that the going concern assumption is appropriate for these financial statements based on their continuing ability to raise financing through share issuances. If future financing is unavailable, the Company may not be able to meet

**1. Corporate Information (cont'd…)**

its ongoing obligations, in which case the realizable value of its assets may decline materially from current estimates. If the going concern assumption was not appropriate for these financial statements, then potentially material adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used.

The current market conditions and volatility increases the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds. These items may cast a significant doubt upon the Company's ability to continue as a going concern.

**2. Basis of Presentation**

**a) Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 ("IAS 34"), Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information

**b) Functional and presentation currency**

These condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company's functional currency. The functional currency of the Company's wholly owned subsidiaries, International King Jack Hydrocarbons Inc. and Far East Oil & Gas Ltd. is also the Canadian dollar. Refer to Note 3(b) for details.

**2. Basis of Presentation (Cont'd…)**

**c) Critical accounting estimates, judgments and assumptions**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The key sources of estimation uncertainty and judgment that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

***Critical Judgments***

**i) Going Concern**

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

**ii) Deferred tax assets and liabilities**

Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income realized, including the use of tax planning strategies.

**iii) Identification of cash generating units**

Cash generating units are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructure, and the way in which management monitors the Company's operations.

***Key Sources of Estimation Uncertainty***

**(i) Assessment of commercial reserves**

Management is required to assess the level of the Company's commercial reserves together with the future expenditures required to access those reserves. These assessments are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required against producing and developed projects. By their nature, these estimates of discovered and probable crude oil and natural

**2. Basis of Presentation (Cont'd…)**

gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risk adjusted discount rate relevant to the asset in question, are subject to measurement uncertainty. The Company employs an independent reserves specialist who periodically assesses the Company's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Company's assets. Significant judgment and estimate are involved when determining whether there have been any significant changes in the Company's crude oil and natural gas reserves.

**(ii) Share-based payments**

The Company has a stock option plan for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 11 and include, among others, expected volatility, expected life of the options and number of options expected to vest.

**(iii) Decommissioning liabilities**

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of oil and gas interests, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

**(iv) Depletion and valuation of oil and gas property**

The amounts recorded for depletion of oil and gas properties and the valuation of cash-generating units of oil and gas properties are based on estimates. These include estimates of proved and probable reserves, production rates, future petroleum prices, future development costs, remaining lives and periods of future bene fits of the related assets and other relevant assumptions.

**2. Basis of Presentation** (cont'd...)

### (v) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will not enhance the assets' performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Company and its subsidiaries, to all periods presented in these consolidated interim financial statements.

### a) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries as described in Note 1 above. These subsidiaries are dormant holding companies. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

### b) Foreign currency

The Company's functional and reporting currency is the Canadian dollar. The functional currency of the Company's subsidiaries, as described in Note 2(b), is also the Canadian dollar. Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at historical rates. Any gains or losses resulting from translation have been included in net loss.

**3. Significant Accounting Policies** (cont'd...)

**c) Revenue recognition**

Revenue from the sale of oil and gas is recognized when title and the risks and rewards of ownership passes to the buyer, normally at the pipeline delivery point for natural gas and at the wellhead for crude oil, and when collection is reasonably assured.

**d) Exploration and evaluation assets**

Costs of exploring for and evaluating oil and natural gas properties are capitalized within exploration and evaluation assets. Exploration and evaluation assets do not include costs of general prospecting or evaluation costs incurred prior to having obtained the legal right to explore an area, which are expensed as incurred.

Exploration and evaluation assets are not depleted or depreciated and are carried forward until technical feasibility and commercial viability is considered to be determined. The technical feasibility and commercial viability is generally considered to be determined when proved plus probable reserves are determined to exist and the commercial production of oil and gas has commenced. A review of each exploration license or field is carried out at least annually to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to oil and gas interests.

**e) Oil and gas interests**

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves.

For divestitures of properties, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

**3. Significant Accounting Policies** (cont'd...)

**f) Equipment**

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of equipment, less its estimated residual value, using the declining balance method at the following rates per annum:

| | |
|---|---|
| Computer equipment | 30% |
| Office equipment | 20% |

**g) Impairment of non-financial assets**

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit, the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the cash generating unit is the greater of the cash generating unit's fair value less costs to sell and its value in use. 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 to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**h) Income taxes**

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax paid or payable in respect of previous years.

**3. Significant Accounting Policies** (cont'd...)

**h) Income taxes** (cont'd…)

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

**i) Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per common share is calculated by dividing net loss available to common shareholders by the weighted-average number of shares outstanding during the year. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

**j) Segmented reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under one geographic region, being Canada.

**k) Share-based payments**

The Company recognizes share-based compensation expense based on the estimated fair value of the options granted. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to share capital.

**3. Significant Accounting Policies** (cont'd...)

**k) Share-based payments** (cont'd…)

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**l) Decommissioning Provisions**

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in profit or loss.

**m) Financial instruments**

All financial instruments are classified into one of five categories: fair-value-through-profit-and-loss, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments are carried in the consolidated statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are recognized at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognized in profit or loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is sold or impaired.

The Company has classified its cash as fair-value-through-profit-and-loss. Accounts receivable are classified as loans and receivables. Bank Overdraft, accounts payable and accrued liabilities, and due to related parties are classified as other financial liabilities, all of which are measured or recognized at amortized cost. The Company has no derivatives or embedded derivatives at the date of these consolidated financial statements.

**3. Significant Accounting Policies** (cont'd...)

**m) Financial instruments** (cont'd…)

The Company also provides the required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

See Note 15 for relevant disclosures.

**n) Long-term equity investment**

The Company utilizes the equity method of accounting for investments subject to significant influence. Under this method, investments are originally recorded at cost and adjusted thereafter to include the Company's pro-rata share of post-acquisition earnings or losses. Any dividends received or receivable from this investee would reduce the carrying value of the investment. Investments are assessed annually for indicators of impairment. Any impairment losses are recorded as loss on equity investment and are included in the statements of operations and comprehensive loss. Refer to Note 6 for details.

**4. Recent Accounting Pronouncements**

***New standards adopted during the year***

Effective October 1, 2013, the following standards were adopted but have had no material impact on the consolidated financial statements:

- IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities.
- IFRS 10 Investment Entities (Amendment).

***New standards and interpretations not yet adopted***

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2015.
- IFRS 9: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.

## 5. Accounts Receivable

Accounts receivable are all current and include the following:

| | June 30, 2016 | September 30, 2015 | June 30, 2015 |
|---|---|---|---|
| Accounts receivable | $ - | $ 45,194 | $ 6,123 |
| GST receivable | - | 5,743 | 7,928 |
| | $ - | $ 50,937 | $ 14,051 |

## 6. Long-term Equity Investment

TerraWest Energy Corporation ("TerraWest") is a Canadian privately owned coal bed methane development company. As at June 30, 2016, the Company held 73,333,334 common shares and 700,000 preferred shares of TerraWest. The original cost of the TerraWest common shares was $1,600,000, and the original cost of the TerraWest preferred shares was $10,500.

As at June 30, 2016, the Company holdings in TerraWest represent a 17.29% (2015 - 22.28%) interest in TerraWest. The Company fully impaired the carrying value in its investment in Terrawest during the year ended September 30, 2014, as a result of continued losses and uncertainly as to the investment's recoverability. The Company has discontinued to recognize its share of further losses from Terrawest from September 30, 2014.

As at June 30, 2016, the Company had one director in common with TerraWest.

## 7. Equipment

| | | Computer equipment | | Office equipment | | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance, June 30, 2015 | $ | 66,905 | $ | 20,018 | $ | 86,923 |
| Disposals | | - | | (15,013) | | (15,013) |
| Balance, September 30, 2015 | | 66,905 | | 5,005 | | 71,910 |
| Additions | | - | | - | | - |
| Balance, June 30, 2016 | $ | 66,905 | $ | 5,005 | $ | 71,910 |
| **Accumulated depreciation** | | | | | | |
| Balance, June 30, 2015 | $ | (64,173) | $ | (17,093) | $ | (81,266) |
| Depreciation | | (265) | | - | | (265) |
| Disposal | | - | | 12,819 | | 12,819 |
| Balance, September 30, 2015 | | (64,438) | | (4,274) | | (68,712) |
| Depreciation | | (555) | | (165) | | (720) |
| Balance, June 30, 2016 | $ | (64,993) | $ | (4,439) | $ | (69,432) |
| **Net book value** | | | | | | |
| June 30, 2015 | $ | 2,732 | **$** | 2,925 | **$** | 5,657 |
| September 30, 2015 | $ | 2,467 | **$** | 731 | **$** | 3,198 |
| June 30, 2016 | $ | 1,912 | $ | 566 | $ | 2,478 |

## 8. Oil and Gas Interests

| | Frog Lake | Redwater North | Gibly | Morningside | Total |
|---|---|---|---|---|---|
| Balance, March 31, 2015 | $ 799,818 | $ 28,916 | $ 19,046 | $ 547,211 | $ 1,394,991 |
| Decommissioning liability | 26,515 | 15,865 | 4,183 | 17,983 | 64,546 |
| Depletion | (40,423) | 134 | (11,010) | (49) | (51,348) |
| Write-off | (785,910) | (44,915) | (12,219) | (565,145) | (1,408,189) |
| Balance, September 30, 2015 | - | - | - | - | - |
| Expenditures | - | - | - | - | - |
| Decommissioning liability | - | - | - | - | - |
| Depletion | - | - | - | - | - |
| Balance, June 30, 2016 | $ - | $ - | $ - | $ - | $ - |

## 9. Related Party Transactions

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

| | Nine month ended June 30, | |
|---|---|---|
| | **2016** | **2015** |
| Share-based compensation | $ - | $ - |
| Short-term benefits* | 76,500 | 76,500 |
| | $ 76,500 | $ 76,500 |

*include both paid and accrued base salaries pursuant to contractual employment, consulting, or management agreements. These have been recorded in wages and benefits and consulting fees.

Amounts due to related parties consist of $650,800 (June 30, 2015 - $549,655) to directors or officers of the Company, or to companies controlled by directors or officers of the Company. This amount includes $232,251 (June 30, 2015 - $175,551) in accrued interest payable on convertible debentures owing to a related party, and a $47,500 (June 30, 2015 - $Nil) operating loan provided to the Company by the CEO of the Company. The loan is unsecured, non-interest bearing and due on demand.

## 10. Decommissioning liabilities

| | June 30, 2016 | September 30, 2015 | June 30, 2015 |
|---|---|---|---|
| Balance, beginning of year | $ 185,455 | $ 118,829 | $ 118,829 |
| Change in estimate | - | 64,546 | - |
| Interest | - | 2,080 | 1,560 |
| Balance, end of year/period | $ 185,455 | $ 185,455 | $ 120,389 |

The following assumptions were used to estimate the decommissioning liabilities:

## 10. Decommissioning liabilities (cont'd...)

| | | June 30, 2016 | | September 30, 2015 | | June 30, 2015 |
|---|---|---|---|---|---|---|
| Total escalated future costs | $ | 228,874 | $ | 135,108 | $ | 135,108 |
| Discount rate, per annum | | 2.0% | | 2.0% | | 2.0% |
| Inflation rate, per annum | | 1.9% | | 1.9% | | 1.9% |

These costs are expected to be made over 10 years with the majority of the costs to be incurred between 2016 and 2034.

## 11. Share Capital

### a) Authorized capital

The authorized share capital consists of an unlimited number of common voting shares without nominal or par value.

### b) Capital transactions

I. On November 21, 2014, the Company completed the first tranche of a non-brokered private placement for gross proceeds of $38,250, through the issuance of 1,275,000 units at a price of $0.03 per unit. Each unit is comprised of one common share and one common share purchase warrant, with each common share purchase warrant exercisable to acquire one additional common share of the Company at a price of $0.05 in the first year following the closing and at $0.10 in the second year, expiring November 21, 2016. Aggregate cash finder's fees of $1,425 were paid in connection with the financing.

II. On February 4, 2015, the Company closed a financing by completing the second tranche of a non-brokered private placement for gross proceeds of $12,000 through the issuance of 400,000 units at a price of $0.03 per unit. Each unit is comprised of one common share and one common share purchase warrant, with each common share purchase warrant exercisable to acquire one additional common share of the Company at a price of $0.05 in the first year following the closing and at $0.10 in the second year, expiring February 4, 2017. No finder's fee was paid in connection with the second tranche of the financing.

III. On March 18, 2015, the Company completed the first tranche of a non-brokered private placement for gross proceeds of $304,000, through the issuance of 10,133,333 units at a price of $0.03 per unit. Each unit is comprised of one common share and one common share purchase warrant, with each common share purchase warrant exercisable to acquire one additional common share of the Company at a price of $0.05 in the first year following the closing and at $0.10 in the second year, expiring March 18, 2017. The Company paid finder's fee $300 in cash and 130,000 common shares in connection with the financing.

**11. Share Capital** (cont'd...)

**b) Capital transactions (**cont'd…)

IV. On March 31, 2015, the Company closed its financing by completing the second tranche of a non-brokered private placement for gross proceeds of $34,500 through the issuance of 1,150,000 units at a price of $0.03 per unit. Each unit is comprised of one common share and one common share purchase warrant, with each common share purchase warrant exercisable to acquire one additional common share of the Company at a price of $0.05 in the first year following the closing and at $0.10 in the second year, expiring March 31, 2017. No finder's fee was paid in connection with the second tranche of the financing.

V. On July 23, 2015, The Company issued 500,000 common shares with a total fair value of $27,500 to Aboriginal Financial Services Corporation ("AFSC") to acquire and terminate AFSC's existing 1.5% gross overriding royalty interest on the Company's Frog Lake property.

VI. On October 29, 2015, the Company completed a non-brokered private placement for gross proceeds of $15,000. 500,000 common shares were issued at the price of $0.03 per share. 500,000 common share purchase warrants were issued to subscribers at the exercise price of $0.05 per warrant in the first year and $0.10 in the second year, expiring October 28, 2017.

VII. On December 15, 2015, the Company completed the first tranche of a non-brokered private placement for gross proceeds of $29,490 through the issuance of 983,000 units at a price of $0.03 per unit. 983,000 common share purchase warrants were issued to subscribers at the exercise price of $0.05 per warrant in the first year and $0.10 in the second year, expiring December 15, 2017. In connection with the private placement, 20,000 finders' shares were issued and $600 finder's fee was paid.

VIII. On February 03, 2016, the Company completed the second tranche of a non-brokered private placement for gross proceeds of $60,698 through the issuance of 2,023,268 units at the price of $0.03 per unit. 2,023,268 common share purchase warrants were issued to subscribers at the exercise price of $0.05 per warrant in the first year and $0.10 in the second year, expiring February 01, 2018. In connection with the private placement, 5,000 finders' shares were issued and $150 finder's fee was paid.

IX. On March 02, 2016, the Company completed the third tranche of a non-brokered private placement for gross proceeds of $25,000 through the issuance of 833,333 units at the price of $0.03 per unit. 833,333 common share purchase warrants were issued to subscribers at the exercise price of $0.05

**11. Share Capital** (cont'd...)

**b) Capital transactions (**cont'd…)

per warrant in the first year and $0.10 in the second year, expiring February 28, 2018. In connection with the private placement, 73,333 finders' shares were issued and $2,200 finder's fee was paid.

**(C) Warrants**

The following is a summary of warrants outstanding:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, March 31, 2015 | 19,383,333 | $ 0.10 |
| Issued | - | 0.05 |
| Expired | (6,125,000) | 0.10 |
| Outstanding, September 30, 2015 | 13,258,333 | $ 0.05 |
| Issued | 4,339,601 | - |
| Expired | (300,000) | 0.10 |
| Outstanding, June 30, 2016 | 17,297,934 | $ 0.05 |

The following is a summary of the outstanding warrants, with their respective expiry dates and exercise prices.

| June 30, 2016 | | | |
|---|---|---|---|
| Exercise Price | Number Outstanding | Expiry Date | Remaining Life (Years) |
| $ 0.10 | 1,275,000 | November 21, 2016 | 0.40 |
| 0.10 | 400,000 | February 4, 2017 | 0.60 |
| 0.10 | 10,133,333 | March 18, 2017 | 0.72 |
| 0.05/0.10 | 1,150,000 | March 31,2017 | 0.75 |
| 0.05/0.10 | 500,000 | October 28, 2017 | 1.33 |
| 0.05/0.10 | 983,000 | December 15, 2017 | 1.46 |
| 0.05/0.10 | 2,023,268 | February 01, 2018 | 1.8 |
| 0.05/0.10 | 833,333 | February 28, 2018 | 1.91 |
| $ 0.05/0.10 | 17,297,934 | | |

**11. Share Capital** (cont'd...)

**d) Stock options**

The Company has adopted an incentive stock option plan under the rules of the TSX-V pursuant to which it is authorized to grant stock options to executive officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the stock option plan, the option exercise price of any option granted shall not be less than the market price of the Company's common shares. The options can be granted for a maximum term of 5 years, and vest immediately on the date of the grant or otherwise at the discretion of the Board. The plan must be approved each year at the annual general meeting of the shareholders.

During the period ended June 30, 2016, the Company granted nil stock options (June 30, 2015 -1,100,000).

The following weighted average assumptions were used for the Black-Scholes method of valuation of stock options granted during the periods ended June 30, 2016 and 2015:

| | **June 30, 2016** | **June 30, 2015** |
|---|---|---|
| Risk-free interest rate | N/A | 1.76% |
| Expected life of options | N/A | 5 years |
| Annualized volatility | N/A | 121.99% |
| Dividend rate | N/A | 0% |
| Forfeiture rate | N/A | 0% |

Stock option transactions for the nine months ended June 30, 2016 and 2015 are as follow:

| | **Number of options** | | **Weighted average exercise price** |
|---|---|---|---|
| Balance outstanding as at September 30, 2014 | 6,500,000 | $ | 0.09 |
| Granted | 1,600,000 | | 0.05 |
| Expired | (550,000) | | 0.19 |
| Balance outstanding at September 30, 2015 | 7,550,000 | $ | 0.07 |
| Granted | - | | - |
| Expired | - | | - |
| **Balance outstanding and exercisable as at June 30, 2016** | **7,550,000** | **$** | **0.07** |

## 11. Share Capital (cont'd...)

### d) Stock options (cont'd...)

As at June 30, 2016, the following stock options were outstanding and exercisable:

| Number of Options Outstanding | Exercise Price | Expiry Date | Exercisable | Remaining Life (years) |
|---|---|---|---|---|
| 3,500,000 | $ 0.10 | September 16, 2017 | 3,500,000 | 1.20 |
| 2,450,000 | $ 0.05 | October 31, 2018 | 2,450,000 | 2.33 |
| 1,100,000 | $ 0.05 | March 5, 2020 | 1,100,000 | 3.73 |
| 500,000 | $ 0.05 | July 10, 2018 | 500,000 | 2.03 |

## 12. Expenses by Nature

General and administration expenses for nine months ended June 30, 2016 and 2015 consist of the following:

| | **Nine months ended June 30, 2016** | Nine months ended June 30, 2015 |
|---|---|---|
| Consulting fees | **$ 30,854** | $ 139,771 |
| Filing agent and transfer fees | **29,155** | 15,222 |
| Office and miscellaneous | **22,221** | 75,089 |
| Professional fees | **142,013** | 35,431 |
| Travel and promotion | **4,557** | 8,546 |
| Wages and benefits | **104,169** | 109,708 |
| Total | **$ 332,969** | $ 383,767 |

## 13. Convertible debenture

During the year ended September 30, 2009, the Company issued 630 subordinated unsecured convertible debentures for proceeds of $630,000 to a company with two directors in common. Each debenture is convertible into 5,000 common shares in the capital of the Company for a price of $0.20 per share (the "Conversion Price").

**13. Convertible debenture** (cont'd…)

The convertible debentures matured in August 2014. Interest is payable quarterly in arrears at 9% per annum. Each unconverted debenture was to convert into common shares at the Conversion Price on the maturity date in accordance with the terms of the convertible debenture agreements while accrued interest would remain payable in cash. As a result, the convertible debentures are classified within shareholders' deficiency.

As at June 30, 2016, accrued interest payable of $232,251 (2015-$175,551) is included in due to related parties (Note 9).

As at June 30, 2016, the Company was negotiating terms of repayment as the creditor has demanded repayment in full.

| **June 30, 2016** | **September 30, 2015** | **June 30, 2015** |
|---|---|---|
| **$ 630,000** | $ 630,000 | $ 630,000 |

**14. Financial Risk Factors**

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and payable to related parties. The fair value of the Company's accounts receivable, accounts payable and accrued liabilities, and payable to related parties approximate their carrying value, due to their short-term maturities or ability of prompt liquidation. The Company's other financial instrument, cash, recorded at fair value, under the fair value hierarchy, is based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. The Company's credit risk is limited to the carrying amount on the statement of financial position.

The Company's cash is held through Canadian chartered banks, which are high-credit quality financial institutions. The Company's receivables are primarily from customers operating in petroleum and natural gas industry within Canada and from related parties. The Company expects credit risk with other remaining customers to be low.

**14. Financial Risk Factors** (cont'd...)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash and short-term investment balances. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long term obligations. As disclosed in Note 1, the ability of the Company to continue as a going concern is dependent on many factors. The Company's cash is primarily invested in bank accounts. On June 30, 2016, the Company had current assets of $9,217 to settle current liabilities of $2,209,463. The Company expects to fund these liabilities through the issuance of capital stock over the coming months.

Market Risk

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

a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash is minimal because the Company's interest rate risk arises primarily from the interest received on cash and short-term investment, which is invested on a short term basis to enable adequate liquidity for payment of operational and capital expenditures.

The Company's convertible debentures bear interest at a fixed rate and therefore the Company does not have interest rate risk associated with its convertible debentures.

b) Commodity Price risk

The value of the Company's exploration and evaluation assets and oil and gas properties are dependent on the price of oil and gas. Market prices for the oil and gas historically have fluctuated widely and are affected by numerous factors outside the Company's control, including but not limited to, levels of worldwide production, short term changes in supply and demand, industrial and retail demand, as well as certain other factors related specifically to oil and gas. If oil and gas prices decline for a prolonged period below the cost of production, it may not be economically feasible to continue towards production.

## 14. Financial Risk Factors (cont'd...)

c) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Asia by using the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk

## 15. Capital Management

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor, creditor and market confidence and to sustain future development of the business.

The oil and gas properties in which the Company currently has an interest are currently incurring losses; as such the Company is dependent on external financing to fund its activities. In order to carry out current operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. In the management capital, the Company includes its components of shareholders' equity.

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

The Company and its subsidiaries are not subject to externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the period ended June 30, 2016, or period ended June 30, 2015.

## 16. Contingencies

During the period as of June 30, 2016, certain claims were brought against the Company. It is the Board of Directors' view that the claims are without merit, and therefore, no contingency provision has been set up in these financial statements. Should circumstances change, the Company will book any gain or loss on these contingencies.

## 16. Contingencies (cont'd…)

a. Ivano DeCotiis, a dissident shareholder who nominated a slate for election as directors at the Company's AGM on December 29, 2015, initiated a petition (the "Petition") seeking leave to commence a derivative action in the Supreme Court of British Columbia on behalf of the Company against the Company's current and former directors and certain companies, based on allegations that the current and former directors of the Company have transferred the Company's interest in TerraWest, a private British Columbia company, to shell corporations controlled by such directors.

b. In a separate lawsuit, the Company announced that Ivano DeCotiis and Tyrone Daum have commenced litigation against the Company in an attempt to overturn the results of the Company's Annual General and Special Meeting held on December 29, 2015.

c. The Company has received a notice of civil claim filed under Vancouver Registry in relation to a claimed finders' fee. The plaintiff is seeking compensation in the form of a cash finders' fee in connection with introducing a buyer to the Company for the issuance to, and purchase by the buyer of common shares of the Company.

## 17. Subsequent Events

The Company has no subsequent events to report for the period ended June 30, 2016, with the exception of those disclosed elsewhere in these financial statements.