

Tanager Energy Inc.
Consolidated Financial Statements
December 31, 2016 and 2015
(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

To the Shareholders of Tanager Energy Inc.:

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

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

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

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

May 1, 2017

(signed) "Tom M. Crain, Jr."

Tom M. Crain, Jr.
Chief Executive Officer

(signed) "Jonathan C. Badger"

Jonathan C. Badger, CPA
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tanager Energy Inc.

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the financial statements, which indicates that the Company incurred a net loss of \$1,640,367 during the year ended December 31, 2016 and, as of that date, the Company's current liabilities exceeded its current assets by \$1,057,610. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Other matter

The financial statements of Tanager Energy Inc. for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 29, 2016.

Ernst & Young LLP

Chartered Professional Accountants
Calgary, Canada
May 1, 2017

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

	December 31, 2016 \$	December 31, 2015 \$
ASSETS (Note 8 and 10)		
Current assets		
Cash and cash equivalents	693,852	310
Available for sale security (Note 4)	192	192
Accounts receivable and other assets	385,311	133,433
	1,079,355	133,935
Deposits (Note 5)	298,743	396,859
Exploration and evaluation assets (Note 6)	11,922,830	-
Property, plant and equipment (Note 7)	767,677	929,415
TOTAL ASSETS	14,068,605	1,460,209
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities (Note 9)	821,367	659,382
Loans payable (Note 10)	190,000	639,385
Current portion of convertible debentures (Note 11)	1,125,598	-
	2,136,965	1,298,767
Liability component of convertible debentures (Note 11)	5,510,475	-
Embedded derivative related to convertible debentures (Note 11)	2,716,090	-
Decommissioning liabilities (Note 12)	411,188	642,656
TOTAL LIABILITIES	10,774,718	1,941,423
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 13)	23,765,581	19,460,327
Contributed surplus (Note 14)	3,398,937	2,726,515
Equity portion of convertible debentures (Note 11)	127,869	-
Accumulated other comprehensive income (loss)	294,714	(15,209)
Deficit	(24,293,214)	(22,652,847)
Total shareholders' equity (deficiency)	3,293,887	(481,214)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	14,068,605	1,460,209

Nature of operations and going concern (Note 1)

Approved on behalf of the Board

(signed) "Tom M. Crain, Jr."

Interim Chairman and CEO

(signed) "Chris Pettit"

Director

Tanager Energy Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended December 31, 2016 and 2015

	2016 \$	2015 \$
Revenue		
Oil and gas sales	223,928	142,033
Royalties	(32,475)	(37,920)
	191,453	104,113
Expenses		
Operating	243,733	17,883
General and administrative (Note 18)	576,318	299,612
Depletion and depreciation	27,898	26,597
Finance expenses (Note 19)	849,364	46,091
Share-based payments	3,818	8,424
Mining royalty and staking	52,903	20,000
Gain on unrealized embedded derivative (Note 11)	(98,779)	-
Foreign exchange	76,565	-
Write down of deposit	100,000	50,000
	1,831,820	468,607
Net loss for the year	(1,640,367)	(344,494)
Comprehensive income (loss)		
Foreign currency translation	309,923	-
Gain (Loss) on available for sale financial assets	-	(1,348)
Comprehensive income (loss) for the year	(1,330,444)	(345,842)
Basic and diluted net loss per share (Note 16)	(0.02)	(0.01)
Weighted average number of common shares outstanding	71,821,580	54,930,146

Tanager Energy Inc.
Statements of Cash Flows
(Expressed in Canadian Dollars)
For the years ended December 31, 2016 and 2015

	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(1,640,367)	(344,494)
Add back (deduct) items not involving cash:		
Depletion and depreciation	27,898	26,597
Accretion	465,438	10,051
Share-based payments	3,818	8,424
Unrealized foreign exchange	144,724	-
Gain on unrealized embedded derivative	(98,779)	-
Write down of deposit	100,000	50,000
Non-cash working capital items:		
Accounts receivable and other assets	(251,878)	(45,866)
Accounts payable and other liabilities	317,254	189,785
Net cash used in operating activities	(931,892)	(105,503)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	(1,884)	(207,439)
Acquisition of exploration and evaluation assets	(3,732,389)	-
Property, plant and equipment	(135,856)	(409,803)
Net cash provided by (used in) investing activities	(3,870,129)	(617,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares and warrants, net of issue costs	4,814,358	75,000
Issue of convertible debentures, net of issue costs	1,132,892	-
Loans payable (repayment)	(449,385)	504,343
Net cash provided by (used in) financing activities	5,497,865	579,343
Effect of changes in foreign exchange rates on cash held in foreign currencies	(2,302)	-
Net increase (decrease) in cash and cash equivalents for the year	693,542	(143,402)
Cash and cash equivalents, beginning of the year	310	143,712
Cash and cash equivalents, end of the year	693,852	310
Supplemental information		
Interest paid	130,976	472

Tanager Energy Inc.
Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

	Number of Shares #	Share Capital \$	Contributed Surplus \$	Equity Portion of Convertible Debentures \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total Shareholders' Equity (Deficit) \$
Balance, December 31, 2014	53,910,968	19,385,327	2,718,091	-	(13,861)	(22,308,353)	(218,796)
Private placement	1,500,000	75,000	-	-	-	-	75,000
Share-based payments	-	-	8,424	-	-	-	8,424
Available for sale financial assets	-	-	-	-	(1,348)	-	(1,348)
Net loss for the year	-	-	-	-	-	(344,494)	(344,494)
Balance, December 31, 2015	55,410,968	19,460,327	2,726,515	-	(15,209)	(22,652,847)	(481,214)
Private placements, net of issue costs	49,545,420	4,143,254	-	-	-	-	4,143,254
Warrants issued under private placement	-	-	668,604	-	-	-	668,604
Exercise of stock options	50,000	2,500	-	-	-	-	2,500
Shares issued to settle debt	2,710,000	159,500	-	-	-	-	159,500
Share-based payments	-	-	3,818	-	-	-	3,818
Equity portion of convertible debenture	-	-	-	127,869	-	-	127,869
Foreign currency translation	-	-	-	-	309,923	-	309,923
Net loss for the year	-	-	-	-	-	(1,640,367)	(1,640,367)
Balance, December 31, 2016	107,716,388	23,765,581	3,398,937	127,869	294,714	(24,293,214)	3,293,887

1. Nature of operations and going concern

Nature of operations

Tanager Energy Inc. ("the Company" or "Tanager") was incorporated in 1946. Pursuant to Articles of Amendment filed in fiscal 2013, the name of the Company was changed to "Tanager Energy Inc." In addition, on June 20, 2016 the Company incorporated Tanager Energy (USA) Inc., a wholly-owned subsidiary. Tanager is an exploration company, engaged in the acquisition, exploration and development of precious and base metal properties in Ontario, Canada and oil and gas hydrocarbons in Alberta, Canada and Texas. The Company's common shares are listed on the TSX Venture Exchange under the symbol TAN.

The primary office is located at 144 4th Avenue SW, Suite 1600, Calgary, AB T2P 3N4 and executive offices are located at 1980 Post Oak Blvd., Suite 1500, Houston, Texas 77056. The financial statements were approved by the Board of Directors on May 1, 2017.

Going concern

These consolidated financial statements, including comparatives, have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from December 31, 2016. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As a result of these risks, there is significant doubt as to the appropriateness of the going concern assumption. There is no assurance that the Company's funding initiatives will continue to be successful and these consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statements of financial position classifications that would be necessary if the going concern assumption was inappropriate. As at December 31, 2016, the Company had a net loss of \$1,640,367 (2015 - \$344,494), a working capital deficiency of \$1,057,610 (2015 - \$1,164,832) and an accumulated deficit of \$24,293,214 (2015 - \$22,652,847). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at December 31, 2016.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments and share-based payment transactions that have been measured at fair value. They were prepared on a going concern basis and are presented in Canadian dollars ("CDN"), which is the functional currency of the parent entity. The functional currency of the US subsidiary is US dollars ("USD").

3. Significant accounting policies

(a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Tanager Energy (USA) Inc.

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

3. Significant accounting policies *(continued)*

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid short-term investments with a maturity date of 90 days or less when acquired.

(c) Revenue recognition

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

(d) Jointly controlled assets

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

(e) Exploration and evaluation assets

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

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

(f) Property, plant and equipment

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

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

Depletion and Depreciation

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

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

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

3. Significant accounting policies *(continued)*

(g) Impairment of non-financial assets

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

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

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

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

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

(h) Restoration, rehabilitation and environmental obligations

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

(i) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3. Significant accounting policies *(continued)*

(j) Business combinations

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

(k) Share-based payment transactions

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

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

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

(l) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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

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

(m) Loss per share

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

3. Significant accounting policies (continued)

(n) Financial assets and liabilities

The Company's financial instruments consist of the following:

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

Fair value through profit and loss:

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

Loans and receivables:

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

Available-for-sale financial assets:

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

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

Other financial liabilities:

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

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

3. Significant accounting policies *(continued)*

Impairment of financial assets:

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

Evidence of impairment could include:

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

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

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

Financial instruments recorded at fair value:

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

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

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

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

(o) Foreign currency translation

(i) Foreign transactions

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

3. Significant accounting policies *(continued)*

(ii) Foreign operations

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

(p) *Segmented reporting*

The Company's reportable segments are determined based on its geographic locations. Canada includes the exploration for, and development and production of, crude oil and natural gas in Alberta, Canada and the acquisition, exploration and development of precious and base metal properties in Ontario, Canada. U.S. includes the exploration for, and the development and production of, crude oil and natural gas in Texas, USA, which commenced with the acquisition in June 2016. Corporate includes corporate activities and items not allocated between operating segments.

(q) *Significant accounting judgments and estimates*

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

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

Reserves Base

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

Exploration and Evaluation Costs

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

(r) *Significant accounting judgments and estimates*

Development Costs

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

3. Significant accounting policies *(continued)*

Decommissioning Liabilities

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

Fair Value Estimates

Estimates are made in determining the fair value of assets and liabilities including the valuation of separately identifiable intangibles acquired as part of an acquisition. These estimates may be further based on management's best assessment of the related inputs used in valuation models, such as future cash flows and discount rates.

Going Concern

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

Stock based compensation

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

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

Asset Impairment and Reversals

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

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

3. Significant accounting policies *(continued)*

(s) Significant accounting judgments and estimates

Determination of Cash Generating Units ("CGUs")

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

Contingencies

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

(t) Accounting standards adopted

The Company adopted the following standards or amendments that were effective at January 1, 2016:

IAS 1 Presentation of Financial Statements

In December 2014, the IASB issued narrow-focus amendments to IAS 1 Presentation of Financial Statements to clarify existing requirements relating to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard was effective for fiscal years beginning on or after January 1, 2016. This amended standard did not have a material effect on the Company.

(u) Accounting standards issued but not yet adopted

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative – Amendments to IAS 7 Statement of Cash Flows, which require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This standard is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted and entities can apply this amendment prospectively.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes, clarifying the accounting for deferred tax assets for unrealized losses. Entities must consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Guidance is also provided on how to determine future taxable profits and explains the circumstances whereby taxable profit may include the recovery of some assets for more than their carrying amount. This standard is effective for periods beginning on or after January 1, 2017. Early adoption of the standard is permitted.

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

The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial asset. IFRS 9 also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This standard is mandatorily effective from January 1, 2018, with earlier application permitted.

3. Significant accounting policies (continued)

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

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

IFRS 2 – Share-based payment – In June 2016 the IASB issued amendments to IFRS 2 to be applied for annual periods beginning on or after January 1, 2018 with early adoption permitted. The amendments clarify how to account for certain types of share-based payment transactions.

The Company is currently assessing the impact of the new standards on these consolidated financial statements.

4. Available-for-sale security

Marketable securities consist of 3,850 (2015 - 3,850) common shares of Damara Gold Corp (formerly Solomon Resources Ltd.), a publicly held Canadian company. The securities have been recorded at market value with a corresponding change reflected in other comprehensive income, although the market value did not change from 2015 to 2016.

5. Deposits

During the year ended December 31, 2012, the Company provided a deposit to acquire certain oil and gas assets amounting to \$150,000. The counter party to the transaction was determined to be in breach and as a result the Company commenced litigation to have the deposit returned. In 2015, the Company recorded a \$50,000 allowance towards this account. As further efforts to advance the litigation and collect the amount from the counter party were not successful, the remaining \$100,000 has been written off in 2016.

The remainder of the deposits relate to payments to the Alberta Energy Regulator as security deposits in connection with well license transfers.

6. Exploration and evaluation assets

	2016	2015
	\$	\$
Balance, beginning of year	-	381,071
Asset acquisition	10,823,258	-
Additions	787,338	-
Foreign exchange	312,234	-
Transfer to property, plant and equipment	-	(381,071)
	11,922,830	-

6. Exploration and evaluation assets *(continued)*

2016 U.S. Asset Acquisition

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

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

2015

During 2015 it was determined that the exploration and evaluation assets qualified as property and equipment with identifiable reserves and they were subsequently tested for impairment and transferred to property and equipment.

7. Property, plant and equipment

Years ended December 31,	2016	2015
Oil and gas properties	\$	\$
Cost		
Balance, beginning of year	956,012	-
Additions	135,856	574,941
Decommissioning liability adjustments	(269,696)	-
Transferred from E&E assets	-	381,071
Foreign exchange	-	-
Balance, end of year	822,172	956,012
Accumulated depletion and depreciation		
Balance, beginning of year	26,597	-
Depletion and depreciation	27,898	26,597
Balance, end of year	54,495	26,597
Net book value	767,677	929,415

Depletion

During the year ended December 31, 2016, \$750,000 (2015 - \$8,200,000) of future development costs were included in costs subject to depletion.

Impairment

At December 31, 2016, the Company determined that a downward technical revision in the reserve volumes of the Company was an indication of impairment and tested its cash-generating units for impairment. The recoverable amount of the CGUs was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a discount rate of 15% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserves engineer for the Company's proved plus probable reserves. As a result, the Company has concluded that there is no impairment of its oil and gas properties at December 31, 2016.

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

The following forward prices were used to determine the estimate of the recoverable amount under the impairment test:

Year	Crude oil (\$/bbl)	Natural gas (\$/mcf)	Butane (\$/bbl)	Propane (\$/bbl)	Condensate (\$/bbl)
2017	51.90	3.11	31.60	11.80	59.15
2018	54.15	3.22	32.95	19.35	61.40
2019	57.70	3.38	35.10	27.85	64.95
2020	62.90	3.43	38.20	29.95	70.15
2021	67.05	3.60	40.70	31.80	74.30
2022	75.25	3.82	45.60	34.90	82.50
2023	77.10	4.09	46.75	35.60	84.35
2024	78.95	4.47	47.85	36.35	86.20
2025	80.90	4.69	49.00	37.15	88.15
2026	82.85	4.85	50.20	37.90	90.10
Thereafter	+2% per year	+2% per year	+2% per year	+2% per year	+2% per year

Business combinations

2015

On May 15, 2015, the Company completed the acquisition of certain oil and gas properties located in the Alberta (the "Assets") with an effective date of April 1, 2015. On completion of the transaction, the Company paid cash of \$110,000 for the Assets and assumed the associated liability for abandonment and site remediation costs. Although the acquisition was effective on April 1, 2015, as per IFRS 3, the acquisition date is determined to be on May 15, 2015, the date the Company obtained control of the Assets. As a result, the purchase price has been adjusted by \$9,895, which represents the April and May, 2015 operating results of the Assets.

The fair value of net identifiable assets acquired and liabilities assumed by the Company are as follows:

	\$
Petroleum and natural gas interests	244,847
Decommissioning liabilities	(124,952)
Fair value of consideration, net of operating income	119,895
	-

The estimated fair value of the Assets acquired was based on an internal estimate of reserve value and negotiated purchase price with the third-party seller as an independent reserve evaluation at the date of acquisition was not readily available. The decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired.

If the acquisition had been effective January 1, 2015, the effect on production revenue would be insignificant.

8. Credit facility

On December 14, 2016 and in connection with an equity offering (Note 12), the Company entered into a line of credit agreement (the "Credit Facility") with an arm's length third party private corporation (the "Lender") for U.S. \$8,000,000. The Credit Facility may be drawn at the option of the Company during the period ended December 14, 2017. The Credit Facility matures on December 14, 2019. Funds advanced under the Credit Facility bear interest at a rate of 6% per annum, payable monthly. The Credit Facility is secured by a first lien on the Company's Texas properties. The obligations of the Company under the Credit Facility are also guaranteed by the Company's wholly owned US subsidiary pursuant to an

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unconditional secured guarantee. The Lender and the holders of the outstanding debentures and notes of Tanager have entered into an intercreditor agreement that provides that such creditors will rank on a pari passu basis in the event of any enforcement on any assets of the Company, provided that the Lender will have a first priority claim on certain property of Tanager and its US subsidiary. Pursuant to the Credit Facility, a minimum of twelve (12) wells in Polk County, Texas must be drilled and completed in the Yegua formation during the period ending December 14, 2017. The Lender has been granted with the right, for so long as it holds at least 10% of the issued common shares of Tanager, to nominate one person for election as a director of at each annual shareholders' meeting.

As of December 31, 2016, the Company had not drawn on the Credit Facility. As of April 28, 2017, the Company has drawn an aggregate of US\$1,625,000 on the Credit Facility.

9. Accounts payable and other liabilities

	2016	2015
	\$	\$
Accounts payable and other liabilities	436,193	377,508
Accounts payable to related parties	385,173	243,569
Payable for the 2014 Joffre acquisition	-	38,305
	821,366	659,382

As at December 31, 2016, the accounts payable to related parties includes interest accrued of \$162,691 on convertible debentures held by a director of the Company and \$222,482 due to a joint venture partner (Note 17 c)). As at December 31, 2015, the accounts payable to related parties includes amounts due to former directors and officers of the Company for services and expense reimbursements and interest accrued on a loan payable due to a former officer of the Company.

10. Loans payable

	2016	2015
	\$	\$
Due to a former Director and Officer	-	449,385
Loan from joint venture partner	190,000	190,000
	190,000	639,385

The amount due to the former Director and Officer was repaid in full in December 2016 pursuant to a settlement agreement. The loan bore interest at 12% per annum and had no fixed terms of repayment. Of the total, \$225,000 was secured by assets of the Company. The loan from the joint venture partner is non-interest bearing, unsecured and due on demand.

11. Convertible debentures

CD-1: On May 3, 2016, the Company completed a non-brokered private placement offering of 10% secured convertible debentures in the principal amount of CDN\$1,198,330. The debentures bear interest at a rate of ten percent (10%) per annum, calculated and payable monthly and mature on May 3, 2017. The debentures are secured against all of the real and personal property of the Corporation with the principal convertible at the holder's option at any time and prior to maturity into common shares of the Corporation at a conversion price of CDN\$0.07 per common share. All securities issued in connection with the Debenture Offering were subject to a hold period that expired on September 4, 2016. The issue costs for this convertible debenture offering were \$45,436.

Subsequent to year end and in April 2017, the Company and the debenture holders of CD-1 have amended the debenture agreement and agreed to extend the maturity date of these debentures from May 3, 2017 to August 3, 2017.

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11. Convertible debentures (continued)

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

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

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

The CD-2 debentures are denominated in a currency other than the Company's functional currency. As a result the conversion feature is treated as a derivative liability and its fair value is estimated at each financial position date with any changes recognized in earnings. The fair value of the liability component of the convertible debentures was determined by discounting the expected future cash flows of the convertible debenture using an interest rate of 25%. The liability component is accreted over the respective term to the principal value on maturity date and a corresponding non-cash accretion charge to earnings. The fair value of the embedded derivative component is adjusted to fair value at each financial position date. The fair value of the conversion feature was determined using a Black-Scholes option pricing model and the following assumptions as of December 31, 2016: (a) a CDN/US exchange rate of 1.3427, (b) dividend yield of 0%, (c) expected volatility of 60%, (d) risk free rate of 1.47%, and (e) an expected life of 2.5 years.

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

Liability portion of convertible debentures	CD -1	CD-2	Total
	\$	\$	\$
Principal of convertible debenture issuance	1,198,330	7,846,800	9,045,130
Less: Issue costs	(45,436)	(20,000)	(65,436)
Less: Equity and derivative liability component	(127,869)	(2,814,869)	(2,942,738)
Fair value of liability component on initial recognition	1,025,025	5,011,931	6,036,956
Accretion expense	100,573	358,053	458,626
Foreign exchange	-	140,491	140,491
Balance, December 31, 2016	1,125,598	5,510,475	6,636,073
Less: current portion			(1,125,598)
Long-term portion			5,510,475
Embedded derivative related to convertible debentures			
Fair value of derivative liability component on initial recognition	-	2,814,869	2,814,869
Derivative gain on revaluation	-	(98,779)	(98,779)
Balance, December 31, 2016	-	2,716,090	2,716,090
Equity			
Equity component initially recognized	127,869	-	127,869
Balance, December 31, 2016	127,869	-	127,869

As at December 31, 2016, accrued interest for the above two debentures amounted to \$288,518 and is included in accounts payable and other liabilities. The debenture holders of the US\$6 million CD-2 debentures had agreed to delay the monthly payments of interest during 2016. In January 2017, all accrued interest on these debentures has been paid and interest payments are being made on a monthly basis.

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12. Decommissioning liabilities

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

	2016	2015
	\$	\$
Beginning balance	642,656	467,467
Additions	28,767	124,952
Accretion	6,812	10,051
Change in estimate	(267,057)	40,186
Foreign exchange	10	
Ending balance	411,188	642,656

Additions for 2016 include \$28,768 of decommissioning liabilities acquired in an asset acquisition. The undiscounted obligation, estimated as \$487,508, has been discounted to the carrying amount based on an inflation rate of 2%, a discount rate of 1.73% to 2.79% (2015 – 2.1%) with anticipated reclamation expenditures taking place over the next 9 to 20 (2015 – 10 to 15 years).

13. Share capital

(a) Authorized share capital

At December 31, 2016, the authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) Common shares issued

The change in issued share capital is as follows:

	Number of common shares	Amount \$
Balance, December 31, 2014	53,910,968	19,385,327
Non-brokered private placement	1,500,000	75,000
Balance, December 31, 2015	55,410,968	19,460,327
Non-brokered private placement (i)	28,545,420	2,791,827
Non-brokered private placement (ii)	21,000,000	1,351,427
Debt settlement (iii)	960,000	72,000
Debt settlement (iv)	1,750,000	87,500
Exercise of stock options	50,000	2,500
Balance, December 31, 2016	107,716,388	23,765,581

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

(ii) On December 14, 2016 and December 22, 2016, the Company completed the closing of two separate tranches of a non-brokered private placement of 16,000,000 and 5,000,000 units ("Units"), respectively, or a total of 21,000,000 Units. Each Unit consists of one common share of the Company and one common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to purchase one additional common share at a price of \$0.10 per common share until the date that is twenty months from the respective closing date until the date and \$0.12 per common share for the period from twenty months from the respective closing date until the date that is thirty-two months from the respective closing date.

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

(iii) On July 7, 2016, the Company settled outstanding indebtedness of \$72,000 through the issuance of 960,000 common shares of the Company at a deemed price of \$0.075 per share. As the transaction was with shareholders of the Company, the transaction has been valued at the carrying value of the indebtedness extinguished. The indebtedness settled was for accounts payable amounts owing to former directors and officers of the Company.

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The common shares issued in connection with the debt settlement were subject to a four month hold period that expired on November 8, 2016.

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

14. Contributed surplus

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

	2016	2015
	\$	\$
Beginning balance	2,726,515	2,718,091
Warrants issued under private placement (Note 13)	668,604	-
Share-based payments (Note 15)	3,818	8,424
Ending balance	3,398,937	2,726,515

15. Stock options

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

On June 24, 2013, at the Company's Annual and Special Meeting, the shareholders passed a resolution approving and ratifying the "2008 Stock Option Plan". Under the 2008 Stock Option Plan, options may be granted to directors, officers, key employees and consultants of the Company. The 2008 Stock Option Plan is a "rolling" stock option plan reserving for issuance upon the exercise of options granted pursuant to the plan a maximum of 10% of the issued and outstanding shares of the Company at any time, less any shares required to be reserved with respect to options granted by the Company prior to the implementation of the 2008 Stock Option Plan.

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

The following table reflects the continuity of stock options for the years ended December 31, 2016 and December 31, 2015:

	Number of Options	Weighted average exercise price (\$)
Outstanding December 31, 2014 and 2013	4,300,000	0.05
Forfeited	(500,000)	(0.05)
Granted	635,000	0.05
Outstanding December 31, 2015	4,435,000	0.05
Forfeited	(2,635,000)	(0.05)
Exercised	(1,800,000)	(0.05)
Outstanding December 31, 2016	-	-

There were no stock options granted in 2016.

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

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The following table summarizes information of the Company's stock option plan as at December 31, 2015:

Date of grant	Number outstanding	Weighted average exercise price (\$)	Weighted average remaining contractual life in years	Options exercisable
Dec 23, 2013	3,800,000	0.05	0.99	3,800,000
Feb 26, 2015	635,000	0.05	2.16	211,666
	4,435,000	0.05		4,011,666

The Company calculated stock based compensation expense for the year ended December 31, 2016 is \$3,818 (2015 – \$8,424).

16. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2016 was based on the loss attributable to common shareholders of \$1,640,367 (2015- \$344,494) and the weighted average number of common shares outstanding of 71,821,580 (2014 - 54,930,146). In calculating diluted weighted average number of common shares outstanding for the year ended December 31, 2016, the Company excluded nil outstanding options (2015 – 4,435,000), 21,000,000 (2015 – 5,012,500) warrants and 132,207,571 (2015 - nil) shares issuable on conversion of convertible debentures because they were anti-dilutive. The shares issuable on conversion of convertible debentures were calculated based upon a conversion price of \$0.07/share and a CDN/US exchange rate of 1.3427 for the US dollar denominated debentures.

17. Warrants

The following table reflects the continuity of warrants for the years ended December 31, 2016 and December 31, 2015 of which the value is recorded in contributed surplus (Note 14):

	Number of warrants
Balance, December 31, 2014	10,012,500
Expired	(5,000,000)
Balance, December 31, 2015	5,012,500
Expired	(5,012,500)
Issued	21,000,000
Balance, December 31, 2016	21,000,000

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

18. General and administrative expense

	2016	2015
	\$	\$
Administrative and general	331,976	147,754
Consulting fees	135,163	66,000
Reporting issuer costs	109,179	85,858
Ending balance	576,318	299,612

19. Finance expenses

	2016	2015
	\$	\$
Interest expense ⁽¹⁾	383,926	36,040
Accretion on convertible debentures (Note 11)	458,626	-
Accretion on decommissioning liabilities (Note 12)	6,812	10,051
	849,364	46,051

(1) Interest expense for the year ended December 31, 2016 includes \$321,426 (2015 – nil) of interest on convertible debentures and \$62,450 (2015 - \$36,040) of interest on the loan payable to a former Director and Officer of the Company.

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20. Related party transactions

Related parties include the Board of Directors, senior management and enterprises that are controlled by these individuals. Related party transactions are conducted in the normal course of operations under normal market conditions and terms. The following transactions were entered into with related parties during the year ended December 31, 2016:

- a) A director of the Company provided \$946,050.00 of the total \$1,198,330 principal of the Canadian dollar convertible debentures financing raised in May 2016 and US\$3,000,000 of the total US\$6,000,000 principal of the US dollar convertible debentures financing raised in June 2016. The Company incurred 10% coupon interest expense on the Canadian dollar debentures and 6% coupon interest expense on the US dollar denominated debentures. A total of \$184,431 coupon interest (2015 – nil) was incurred on the portion of these convertible debentures held by the director, of which \$162,691 was included in accounts payable and other liabilities.
- b) For the year ended December 31, 2016, the Company paid \$62,450 (2015 - \$36,040) of interest on a loan payable due to a former Director and Officer of the Company (Note 9).
- c) Further to the acquisition of U.S. assets described in Note 7, the Company now conducts all of U.S. operations with one joint venture partner (the “US JV Partner”). The US JV Partner is owned by a director of the Company and another party. This director was appointed to the Board in November 2016. The US JV Partner is considered a related party for accounting purposes by virtue of a common director and that the ownership group of the US JV Partner also holds convertible debentures of the Company which could be convertible into 128,603,571 common shares of the Company as at December 31, 2016 based upon a conversion price of \$0.07/share and a CDN/US exchange rate of 1.3427 for the US dollar denominated debentures. The results of the Company’s US operations conducted with the US JV Partner are shown in the segmented financial information in Note 25. Included in accounts payable at December 31, 2016 is \$222,482 owing to the US JV Partner.

Key management personnel include the Company’s senior management and all of the Company’s directors. The Company recorded the following amounts in its Financial Statements relating to key management personnel compensation in 2016 and 2015:

	2016	2015
	\$	\$
Short term benefits	226,577	127,569
Share-based payments	3,818	8,424
	230,395	135,993

21. Income taxes

Income taxes recorded differ from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 27% (2015 - 26%). The reasons for the differences are as follows:

	2016	2015
	\$	\$
Loss before taxes	(1,640,367)	(334,494)
Computed expected Income tax recovery	(459,303)	(89,568)
Share-based payments	1,301	2,190
Change in tax rates and other	(154,600)	-
Other	161,400	-
Deferred tax benefits not recognized	451,202	87,378
	-	-

21. Income taxes (Continued)

The temporary differences that would give rise to significant portions of the future tax assets and future tax liabilities at December 31, were as follows:

	2016	2015
	\$	\$
Non-capital losses carried forward	4,853,718	4,384,800
Net-operating losses carried forward	256,778	-
Capital losses carry forward	-	8,688
Share issue costs	312,051	229,544
Resource property pools	17,317,439	7,115,907
Other	-	642,656
	22,739,986	12,381,595

The Company has \$4,853,718 in non-capital losses in Canada which between 2017 and 2026. The Company has net operating losses for income tax purposes in the U.S. of \$191,240 (2015 – nil).

22. Capital risk management

The Company manages its capital to ensure that funds are available or are scheduled to be raised to provide adequate funds to carry out the Company's defined exploration programs and to meet its ongoing administrative costs. The Company considers its capital to be equity, which comprises share capital, contributed surplus, accumulated other comprehensive loss and deficit, which at December 31, 2016, totaled \$3,293,887 (2015 - \$481,214 deficiency).

Capital management is achieved by the Board of Directors' review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other fund raisings (Note 1).

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

Management reviews its approach to capital management on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the year ended December 31, 2016.

23. Financial risk management

Financial risk

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

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

(i) Credit risk

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

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

23. Financial risk management *(continued)*

(ii) Liquidity risk

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

The Company generates cash flow primarily from its financing activities. As at December 31, 2016, the Company had cash and cash equivalents of \$693,852 (2015 - \$310) to settle current liabilities of \$2,136,964 (2015 - \$1,298,767). All of the Company's financial liabilities have contractual maturities one year or less and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

(iii) Market risk

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

(a) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks. The interest bearing debt is at fixed rates and not subject to rate fluctuations. The Company regularly monitors compliance to its cash management policy.

(b) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar. Commencing in 2016, the Company operates in the US and is exposed to foreign exchange risk. As at December 31, 2016, the Company is exposed to foreign currency risk through the following assets and liabilities denominated in US dollars:

	US Dollars (\$)
Cash and cash equivalents	41,783
Accounts payable	(249,993)
Principal of U.S. dollar denominated convertible debentures	(6,000,000)
	(6,208,210)

Based on the above net exposures as at December 31, 2016 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase or decrease of approximately \$834,000 in the Company's comprehensive income for the year.

(c) Price risk

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

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23. Financial risk management (continued)

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

(iv) Economic dependence

Revenue received from one contract operator represented 68% of the total revenue during the year ended December 31, 2016.

24. Segmented financial information

The Company's reportable segments are determined based on its geographic locations. Canada includes the exploration for, and development and production of, crude oil and natural gas in Alberta, Canada and the acquisition, exploration and development of precious and base metal properties in Ontario, Canada. U.S. includes the exploration for, and the development and production of, crude oil and natural gas in Texas, USA, which commenced with the acquisition in June 2016. Corporate includes corporate activities and items not allocated between operating segments.

For the year ended December 31, 2016

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

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

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25. Commitments

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

The Company must perform a required level of evaluation activity, to maintain its mining property in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to the claims comprising this property or parts thereof. The Company does not have any required activity for two years due to expenditures made to date.

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

- (b) Pursuant to the Company's credit facility (Note 8), a minimum of twelve (12) wells in Polk County, Texas must be drilled and completed in the Yegua formation during the twelve month period ended December 14, 2017.
- (c) Pursuant to an exploration agreement with the US JV Partner, the Company has committed to pay for 100% of the costs of the first joint venture well drilled in the Yegua formation and will earn a 50% working interest in the net revenue from that well. Further, the Company shall pay an aggregate maximum of US\$3.5 million (the "Carry Funding Amount") for 100% of the costs of all subsequent Yegua wells which allows Tanager to earn a 75% working interest in the net revenue from these wells until the Carry Funding Amount has reached payout. After payout of the Carry Funding Amount, the Company's working interest in these and future wells shall reduce to 50%. In addition, pursuant to the exploration agreement, the Company has agreed to pay 100% of the costs associated with recompletion of the Cain-Carter #1 well and earns a 50% working interest in the net revenue from that well.