BUTTE ENERGY INC.

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2015

Management's Report

The accompanying financial statements and related financial information are the responsibility of management, and have been prepared in accordance with International Financial Reporting Standards. The information includes certain amounts based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the financial statements.

In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal controls that provide reasonable assurance, for the safeguard of assets from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Management also maintains policies and procedures to support the accounting and internal control systems.

The independent external auditor, Steve L. Czechowsky, Professional Corporation, has conducted an examination of the financial statements on behalf of shareholders. The auditor has unrestricted access to the Company and the Audit Committee.

The Board of Directors, currently composed of five directors, carries out its responsibility for the financial statements principally through its Audit Committee, consisting of three members, all of whom are independent directors. This committee reviews the financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditor to be appointed by the shareholders at each annual meeting. The audit committee meets at least quarterly to review and approve interim financial statements prior to their release, and recommend their approval to the Board of Directors.

The following signatories authorize these financial statements for issue as of the date noted below.

"Tyron Pfeifer"	"Chris Reimchen"
President and Chief Executive Officer	Chief Financial Officer

March 28, 2016

CZECHOWSKY, GRAHAM & HANEVELT
CHARTERED ACCOUNTANTS
• AN ASSOCIATION OF PROFESSIONAL PRACTICES •

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INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of Butte Energy Inc., which comprise the balance sheets as at December 31, 2015 and December 31, 2014 and the statement of loss and deficit for the years ended December 31, 2015 and December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Butte Energy Inc. as at December 31, 2015, and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

March 28, 2016

Calgary, Alberta "signed by Steve L. Czechowsky, Chartered Accountant"

BUTTE ENERGY INC.
BALANCE SHEETS
AS AT DECEMBER 31

		December 31, 2015		December 31, 2014
Assets				
Current assets				
Cash and cash equivalents	**$**	**6,731**	$	68,641
Accounts receivable		**6,417**		36,009
Deposits and prepaid expenses		**1,548**		89,933
Asset held for sale (Note 12)		**1,000,000**		-
		1,014,696		194,583
Non-current assets				
Property, plant and equipment (Note 12)		**-**		2,150,113
	$	**1,014,696**	$	2,344,696
Liabilities				
Current liabilities				
Trade and other payables	**$**	**344,527**	$	389,050
Non-current liabilities				
Due to related parties (Note 17)		**11,782,687**		10,896,541
Asset retirement obligations (Note 14)		**-**		51,041
		11,782,687		10,947,582
Shareholders' deficiency				
Share capital (Note 15)		**7,645,794**		7,645,794
Contributed surplus		**389,893**		389,893
Deficit		**(19,148,205)**		(17,027,623)
		(11,112,518)		(8,991,936)
	$	**1,014,696**	$	2,344,696

See accompanying notes to financial statements.

BUTTE ENERGY INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Number of common shares	Share capital	Contribute d Surplus	Deficit	Total Deficiency
Balance at January 1, 2014	43,738,810	$7,645,794	$389,893	$(11,407,175)	$(3,371,488)
Net loss for the period	-	-	-	(5,620,448)	(5,620,448)
Balance at December 31, 2014	43,738,810	7,645,794	389,893	(17,027,623)	(8,991,936)
Net loss for the period	-	-	-	(2,120,582)	(2,120,582)
Balance at December 31, 2015	43,738,810	$7,645,794	$389,893	$(19,148,205)	$(11,112,518)

See accompanying notes to financial statements.

BUTTE ENERGY INC.
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31

		2015		2014
REVENUE				
Oil and gas revenue	**$**	**23,013**	$	319,650
Royalties		**(4,680)**		(27,724)
		18,333		291,926
EXPENSES				
Operating		**58,229**		246,837
General and administrative		**448,926**		612,829
Depletion and depreciation		**8,900**		156,787
Loss on sale of property, plant and equipment (Note 12)		**-**		1,245,591
Write-down of exploration and evaluation assets (Note 13)		**154,087**		3,280,386
Write-down of property, plant and equipment (Note 12)		**1,092,031**		-
Write-down of inventory		**19,240**		-
		1,781,413		5,542,430
OTHER INCOME AND EXPENSE				
Finance income (Note 9)		**552**		896
Finance expense (Note 9, Note 17)		**(358,054)**		(370,840)
		(357,502)		(369,944)
Net loss and comprehensive loss	**$**	**(2,120,582)**	$	(5,620,448)
Loss per share – basic and diluted	**$**	**(0.05)**	$	(0.13)

See accompanying notes to financial statements.

BUTTE ENERGY INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2015	2014
Operating activities		
Net loss and comprehensive loss	**$ (2,120,582)**	$ (5,620,448)
Adjustments for		
Depletion and depreciation	**8,900**	156,787
Loss on sale of property, plant and equipment	**-**	1,245,591
Write-down of exploration and evaluation assets	**154,087**	3,280,386
Write-down on sale of property, plant and equipment	**1,092,031**	-
Write-down of inventory	**19,240**	-
Finance expense	**358,054**	370,840
Interest paid	**(1,908)**	(1,908)
Change in non-cash working capital (Note 10)	**27,827**	146,927
	(462,351)	(421,825)
Investing activities		
Proceeds from sale of property, plant and equipment	**-**	71,102
Additions to exploration and evaluation assets	**(173,327)**	(138,649)
Additions to property, plant and equipment	**(1,859)**	(200,021)
Change in non-cash working capital (Note 10)	**45,627**	(169,376)
	(129,559)	(436,944)
Financing activities		
Due from related party (Note 17)	**530,000**	750,000
	530,000	750,000
Change in cash and cash equivalents	**(61,910)**	(108,769)
Cash and cash equivalents, beginning of year	**68,641**	177,410
Cash and cash equivalents, end of year	**$ 6,731**	$ 68,641

See accompanying notes to financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Butte Energy Inc. ("Butte" or the "Company") is incorporated under the Business Corporations Act (Alberta).

The Company is engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada.

The Company is located at 500, 1414 Eighth Street SW, Calgary, Alberta, Canada. The Company lists its common shares on the TSX Venture exchange under the symbol "BEN".

The recoverability of the amounts shown for oil and gas properties is dependent upon the discovery of economically recoverable reserves, and the ability of the Company to obtain necessary financing to complete the exploration and development of its properties.

These financial statements have been prepared assuming the Company will continue as a going concern. The Company has an accumulated deficit of $19,148,205 and working capital of $670,169 as at December 31, 2015. The Company is presently actively marketing the sale of its only remaining oil property. In order to fund future acquisitions, the Company will need to raise additional funds by way of equity or debt. However, there is no assurance that the Company will be able to raise such funds on terms acceptable to it or at all, which could result in the dissolution of the Company. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the going concern basis of accounting be inappropriate.

The Board of Directors approved and authorized these financial statements for issuance on March 28, 2016.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Butte's significant accounting policies under IFRS are presented in note 3.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except where noted in the accounting policies.

(c) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Management Estimates and Judgements

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and

2. BASIS OF PREPARATION (cont'd)

liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

(i) Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

(ii) Oil and natural gas assets are grouped into cash generating units ("CGUs") that are the smallest identifiable group of assets that generate cash inflows essentially independent from cash inflows of other assets or groups of assets. These CGUs are determined based on management's judgement in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

(iii) Amounts recorded for asset retirement obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

(iv) Amounts recorded for depreciation requires the use of estimates with respect to the approximate useful lives of the assets.

(v) The estimated fair value of derivative financial instruments resulting in financial assets and liabilities by their very nature are subject to measurement uncertainty.

(vi) Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model, which is based on significant assumptions such as volatility, dividend yield and expected term.
Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

(vii) Tax interpretations, regulations and legislation are subject to change. As such, income taxes are subject to measurement uncertainty. Assessment by management of deferred income tax assets occurs at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements, and have been applied consistently by the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables and loans and borrowings. Non-derivative financial instruments are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits with banks, other short-term liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents at fair value.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is established using the first-in first-out method for product inventories and average cost method for materials and supplies. Net realizable value is determined using the prices existing at the balance sheet date less the estimated costs of sale.

Other

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables and loans and borrowings, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

effects.

(b) Property, plant and equipment and intangible exploration assets

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalised as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting oil and gas resources is considered to be determinable when proven reserves are determined to exist. A review of each exploration licence or field is completed, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas interests.

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU's") for impairment testing. The Company has grouped its development and production assets into CGU's. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net in the statement of operations.

Property, plant and equipment ("PP&E") are stated at cost less depletion, depreciation and accumulated impairment losses. The cost of an item of PP&E 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. Independent reserve engineers review these estimates at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if producibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir. Reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

For other assets, depreciation is recognized in the statement of operations on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

- Computer hardware - 3 years
- Office equipment - 5 years

At each reporting date, there is a review of depreciation methods, useful lives and residual values.

(c) Impairment

(i) Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of operations.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the statement of operations.

(ii) Non-financial Assets

The carrying amounts of the Company's non-financial assets, other than Exploration and Evaluation ("E&E") assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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 if there has been a change in the estimates used to determine the recoverable amount. 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 or amortization, if no impairment loss had been recognized.

(d) Share based payments

The grant date fair value of options granted to employees, directors and consultants is recognized as compensation expense, within general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is
estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(e) Provisions

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 current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Asset retirement obligations (ARO)

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value of management's best estimate of

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs in the statement of operations whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

(f) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time the product enters the pipeline. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

(g) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on ARO and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in the statement of operations, using the effective interest method.

(h) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of operations 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 the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Loss per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(j) Segmented Reporting

The Company operates in a single reportable operating segment, which consists of the acquisition of and exploration and development of oil and gas properties.

4. CHANGES IN ACCOUNTING POLICIES

New standards not yet adopted

As of January 1, 2018, the Company will be required to adopt IFRS 9, "Financial Instruments". The IASB issued IFRS 9, which is the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 15, "Revenue from Contracts with Customers" is a comprehensive new standard on revenue recognition that replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard specifies how and when to recognize revenue as well as requiring entities to provide more informative and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted.

The Company is currently evaluating the impact of adopting these amended standards.

5. DETERMINATION OF FAIR VALUES

(a) A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, Plant and Equipment and Exploration and Evaluation Assets

The fair value of property, plant and equipment recognized in a business combination, is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein

5. DETERMINATION OF FAIR VALUES (cont'd)

the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Cash and Cash Equivalents, Accounts Receivable, Trade and Other Payables and Loans and Borrowings

The fair value of cash and cash equivalents, accounts receivable, trade and other payables and loans and borrowings is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair values of these balances approximate their carrying value due to their short term to maturity or in the case of loans and borrowings, the fair value approximates its carrying value as it bears interest at floating rates and the premium charged was indicative of the Company's current credit premium.

(iii) Stock Options

The fair value of employee stock options is measured using a Black Scholes, option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), and the risk-free interest rate (based on government bonds).

(b) The following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2015 and 2014. The carrying value of cash and cash equivalents, accounts receivables, and accounts payables included in the balance sheet approximate fair value due to the short-term nature of those instruments. These assets and liabilities except cash and cash equivalents are not included in the following tables.

5. DETERMINATION OF FAIR VALUES (cont'd)

December 31, 2015	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$ 6,731	$ 6,731	$ 6,731	$ -	$ -
Financial Liabilities					
Due to related parties	$ 11,782,687	$ 11,782,687	$ 11,782,687	$ -	$ -

December 31, 2014	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$ 68,641	$ 68,641	$ 68,641	$ -	$ -
Financial Liabilities					
Due to related parties	$ 10,896,541	$ 10,896,541	$ 10,896,541	$ -	$ -

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from a quoted indices.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information. The level 3 fair value measurements pertain to the fair value assigned to property and equipment, intangible exploration assets and other intangible assets acquired in business combinations.

6. FINANCIAL RISK MANAGEMENT

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk
- liquidity risk

6. FINANCIAL RISK MANAGEMENT (cont'd)

- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit Risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing to numerous purchasers under normal industry sale and payment terms. The Company routinely assesses the financial strength of its customers.

At December 31, 2015, financial assets on the balance sheet are comprised of cash and cash equivalents and accounts receivable. The maximum credit exposure at December 31, 2015 is the carrying amount of cash and accounts receivable of $13,148. A major financial institution holds the cash and cash equivalents. As is common in the petroleum and natural gas industry in Canada, the Company collects receivables relating to the sale of petroleum and natural gas on or about the 25th day of the following month. The Company currently has no production but if there were production, the Company would market its production to customers with investment grade credit ratings, if available in the area of production. As the operator of properties, Butte would have the ability to deny allocation of production to joint venture Partners who are in default of amounts owing. At December 31, 2015, Butte did not have an allowance for doubtful accounts.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 365 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditures.

6. FINANCIAL RISK MANAGEMENT (cont'd)

	Carrying amount	2016	2017	2018
Trade and other payables	$ 344,527	$ 344,527	$ -	$ -
Due to related parties	11,782,687	-	11,782,687	-
	$ 12,127,214	$ 344,527	$ 11,782,687	$ -

(d) Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors. The Company currently has only one operating property and therefore the exposure to market risk is minimal.

(e) Capital Management

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, loans and borrowings and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, enter into farm-out agreements and adjust its capital spending to manage current and projected debt levels.

In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The Board of Directors approves annual and updated budgets.

There were no changes in the Company's approach to capital management during the year.

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel include the executive officers and vice presidents of the Company. Compensation of key management personnel is comprised of the following.

		2015		**2014**
Consulting fees	**$**	**120,000**	$	120,000

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL (cont'd)

The executive officers include the President and Chief Executive Officer and Chief Financial Officer. Executive officers also participate in the Company's option programme. For the years ended December 31, 2015 and 2014, the Chief Financial Officer did not receive any remuneration from the Company.

There were no share-based payments associated with options granted to key management personnel in the current or prior year.

8. PERSONNEL EXPENSES

	2015	2014
Consulting fees	**$ 43,800**	$ 65,880

Consulting fees relate to the services of one consultant.

There were no share-based payments associated with options granted to employees in the current or prior year.

9. FINANCE EXPENSE

	December 31, 2015	December 31, 2014
Finance income		
Interest and other	**$ 552**	$ 896
Finance expense		
Interest	**(358,054)**	(370,840)
Net finance expenses	**$ (357,502)**	$ (369,944)

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	December 31, 2015	December 31, 2014
Accounts receivable	**$ 29,592**	$ (11,508)
Deposits and prepaid expenses	**88,385**	4,518
Inventory	**-**	63,100
Trade and other payables	**(44,523)**	(78,559)
	$ 73,414	$ (22,449)
Related to operating activities	**$ 27,827**	$ 146,927
Related to investing activities	**$ 45,627**	$ (169,376)

11. INCOME TAX EXPENSE

Reconciliation of effective tax rate:

	2015	2014
Loss before tax	**$ (2,120,582)**	**$** (5,620,448)
Expected tax rate	**25.0**	25.0
Expected recovery	**(530,146)**	(1,405,112)
Non-deductible expenses	**132**	255
Unrecognized deferred income tax assets	**530,014**	1,404,857
	$ -	**$** -

There is no recognition of deferred tax assets in respect of the following items:

	2015	2014
Property, plant and equipment	**$ 1,783,413**	**$** 1,607,701
Asset retirement obligation	**-**	12,760
Share issue costs	**1,252**	3,483
Tax losses	**2,365,600**	2,127,430
	$ 4,150,265	**$** 3,751,374

The Company has a non-capital loss carry forward balance of $9,432,398 (2014 - $8,479,719). These losses will expire from 2026 to 2035. The balance of the remaining tax pools is $7,168,654 (2014 - $8,624,843)

12. PROPERTY, PLANT AND EQUIPMENT

		Oil and Natural Gas Interests		Other Equipment		Total
Cost or deemed cost						
Balance at December 31, 2013	$	3,942,296	$	21,020	$	3,963,316
Additions		174,575		-		174,575
Transfer from E. And E. Assets		18,836		-		18,836
Property disposal		(1,916,994)		-		(1,916,994)
Balance at December 31, 2014		2,218,713		21,020		2,239,733
Additions		3,909		-		3,909
Write-down of property, plant and equipment		(1,169,531)		-		(1,169,531)
Property reclassified to asset held for sale		(1,053,091)		-		(1,053,091)
Balance at December 31, 2015	$	-	$	21,020	$	21,020
Depletion, depreciation and impairment losses						
Balance at December 31, 2013	$	520,200	$	12,933	$	533,133
Depletion and depreciation for the year		148,700		8,087		156,787
Property disposal		(600,300)		-		(600,300)
Balance at December 31, 2014		68,600		21,020		89,620
Depletion and depreciation for the year		8,900		-		8,900
Write-down of property, plant and equipment		(77,500)		-		(77,500)
Balance at December 31, 2015	$	-	$	21,020	$	21,020
Carrying amounts						
At December 31, 2014	$	2,150,113	$	-	$	2,150,113
At December 31, 2015	$	-	$	-	$	-

In 2015, the Company recognized a write-down of $1,092,031 on its Chigwell property to reflect the expected net realizable value on a sale of $1,000,000, net of the property's asset retirement liability. The Company reclassified the property's net realizable value to Asset Held for Sale to reflect its intentions to dispose of the property.

In 2014, the Company sold its working interest in the PEOC 3-4-55-12 W4M well to its joint venture partner for $71,102 in settlement of accounts payable owing. The company recognized a loss of $1,245,591 in this transaction.

13. EXPLORATION AND EVALUATION ASSETS

		E&E Assets
Cost or deemed cost		
Balance at December 31, 2013	$	3,160,573
Additions		138,649
Transfer to property, plant and equipment		(18,836)
Write-down of exploration and evaluation assets		(3,280,386)
Balance at December 31, 2014		-
Additions		154,087
Write-down of exploration and evaluation assets		(154,087)
Balance at December 31, 2015	$	-

The Company wrote-off its exploration and evaluation assets in 2014 due to financial constraints and impending lease expiries.

14. ASSET RETIREMENT OBLIGATIONS

		December 31, 2015		December 31, 2014
Balance, beginning of year	$	51,041	$	76,487
Property dispositions		(53,091)		(23,188)
Effect of change in risk free rate		2,050		(2,258)
Balance, end of year	$	-	$	51,041

The Company's asset retirement obligation (ARO) results from its ownership interest in oil and natural gas assets. The total future site restoration obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of ARO to be $53,091 as at December 31, 2015 (2014 - $51,041) based on an undiscounted total future liability of $50,000 (2014 - $50,000). The discount factor used, being the risk-free rate related to the liability was 1.39% (2014 - 1.79%). The Company has offset the ARO against the expected proceeds on the sale of the properties classified under Asset Held for Sale.

15. SHARE CAPITAL

Balance at January 1, 2013 and 2014	43,738,810	$	7,645,794
Private placement	-		-
Share issue costs	-		-
Balance at December 31, 2015	43,738,810	$	7,645,794

Basic and fully diluted loss per share is calculated using the weighted average number of outstanding common shares of 43,738,810 (2014 - 43,738,810).

16. STOCK OPTIONS

The Company has an option programme that entitles officers, directors, employees and consultants to purchase common shares in the Company. Options are granted at the market price of the shares at the date of grant, have a three-year term and vest over two years.

As at December 31, 2015, the Company had no stock options outstanding (2014 - nil).

17. DUE TO RELATED PARTIES

As of December 31, 2015, the Company had promissory notes and advances owing to directors for $11,681,463 and interest payable of $101,224 to Sand Hills Energy Inc., a Company owned by a director on a promissory note that was subsequently transferred to a director in July 2011. Sand Hills Energy Inc. ("Sand Hills") is considered a related party by virtue of a common director.

The maturity of the note that had been originally payable to Sand Hills Energy Inc. and subsequently transferred to a director was extended to December 31, 2017 from December 31, 2012.

The notes payable to the directors are unsecured and bears interest at prime plus three percent. For the year ended December 31, 2015, $356,146 (2014 - $368,932) of interest expense was accrued on promissory notes. Of the total payable, $7,700,843 matures on December 31, 2017 and the director agreed not to demand payment over the next twelve months on the remaining indebtedness. Consequently, amount due to directors is classified as a long-term liability.

		December 31, 2015		**December 31, 2014**
Promissory note due to director	**$**	7,700,843	$	7,344,697
Note payable to Sand Hills Energy Inc.		101,224		101,224
Advances from directors		3,980,620		3,450,620
	$	11,782,687	$	10,896,541

The advances from directors above are unsecured, payable on demand and non-interest bearing.