



Audited Consolidated Financial Statements

For the Years Ended December 31, 2015 and 2014

MONTANA EXPLORATION CORP.

Management's Report

The Management of Montana Exploration Corp. (the "Company") is responsible for the preparation of the consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of Management, where appropriate. Operational and other financial information contained throughout the report is consistent with that provided in the consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurately and reliably recorded, that the consolidated financial statements accurately report the Company's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate, and that the Company's assets are properly safeguarded.

The Audit Committee, comprised of a majority of non-management directors, acts on behalf of the Board of Directors to ensure that Management fulfills its financial reporting and internal control responsibilities. The Audit Committee is responsible for meeting regularly with Management and the external auditors to discuss internal controls over financial reporting processes, auditing matters and various aspects of financial reporting. The Audit Committee reviewed the consolidated financial statements with Management and recommended approval to the Board of Directors. The Board of Directors has approved these consolidated financial statements.

Charles Selby
Chief Executive Officer

Michael J. Hibberd
Chair, Audit Committee

Calgary, Canada
April 18, 2015

Independent Auditors' Report

To the Shareholders
Montana Exploration Corp.

We have audited the accompanying consolidated financial statements of Montana Exploration Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' deficiency and consolidated statements of cash flows for the years ending December 31, 2015 and December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Montana Exploration Corp. and its subsidiaries as at December 31, 2015 and December 31, 2014, and their financial performance and their cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 2 to the consolidated financial statements which describes conditions that indicate the existence of a material uncertainty that may cast significant doubt about Montana Exploration Corp.'s ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Collins Bonow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April 18, 2016

MONTANA EXPLORATION CORP.
Consolidated Statements of Financial Position

(\$CDN)	Note	December 31, 2015	December 31, 2014
ASSETS			
<i>Current assets</i>			
Cash		993,194	280,900
Short-term investments	7	-	777,778
Trade and other receivables		431,601	393,909
Prepaid expenses		74,029	55,960
		1,498,824	1,508,547
<i>Non-current assets</i>			
Deposits		210,077	174,689
Carried working interest	6	824,383	-
Evaluation and exploration assets	8	5,310,865	4,324,050
Property, plant and equipment	9	78,049	1,075,661
TOTAL ASSETS		7,922,198	7,082,947
LIABILITIES			
<i>Current liabilities</i>			
Trade and other payables		6,663,331	5,491,002
Demand facility	10(a)	-	400,000
Mezzanine facility	10(b)	-	1,065,000
Advances from shareholders	10(c), 10(g)	1,086,712	2,800,000
Promissory notes	10(d)	780,801	780,801
Convertible debentures	10(c)	-	3,247,656
Decommissioning liabilities	12	110,671	-
		8,641,515	13,784,459
<i>Non-current liabilities</i>			
Promissory notes	10(f)	170,400	-
Decommissioning liabilities	12	3,611,975	4,875,151
TOTAL LIABILITIES		12,423,890	18,659,610
SHAREHOLDERS' DEFICIENCY			
Share capital	13(B)	60,058,316	51,137,426
Warrants	13(D)	-	1,463,609
Equity component of convertible debentures	10(c)	-	34,725
Contributed surplus	13(C)	10,875,338	8,835,555
Foreign currency translation adjustment		645,446	341,196
Deficit		(76,080,792)	(73,389,174)
		(4,501,692)	(11,576,663)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		7,922,198	7,082,947
Going concern	2		
Commitments and contingencies	19		
Subsequent events	24		

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

Approved by the Board of Directors

“signed”
James W. Collins
Director

“signed”
Michael J. Hibberd
Director

MONTANA EXPLORATION CORP.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2015 and 2014

(\$CDN)	Note	2015	2014
REVENUE			
Petroleum and natural gas sales		599,871	1,250,094
Natural gas processing fees		12,804	27,071
Less: Royalties		(112,956)	(269,003)
		<u>499,719</u>	<u>1,008,162</u>
EXPENSES			
Production and transportation		889,081	1,052,863
Lease expiries	8	592,490	1,773,619
Impairment of exploration and evaluation assets and property, plant and equipment	8,9	(155,754)	4,340,169
Impairment of goodwill	6	753,323	-
Depletion, depreciation and amortization	9	155,354	220,783
General and administrative	8	2,116,955	2,509,883
Financing	15	906,041	976,242
Transaction costs	6	371,373	-
Bad debt expense		72,053	-
Stock-based compensation	14	446,694	755,994
		<u>6,147,610</u>	<u>11,629,553</u>
Loss before the following:		(5,647,891)	(10,621,391)
Gain on financial derivative		-	739,524
Gain on settlement of debt	10	3,721,746	-
Unrealized loss on short-term investments	7	(777,778)	(1,742,222)
Net foreign exchange gain (loss)		(14,695)	3,663
		<u>(2,718,618)</u>	<u>(11,620,426)</u>
Loss before taxes		(2,718,618)	(11,620,426)
Deferred tax recovery	11	27,000	11,575
Net loss		(2,691,618)	(11,608,851)
Other comprehensive income			
Foreign currency translation adjustment		304,250	341,196
Other comprehensive income		304,250	341,196
Total comprehensive loss		(2,387,368)	(11,267,655)
Loss per share			
Basic	17	(0.02)	0.12
Diluted		(0.02)	0.12

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

MONTANA EXPLORATION CORP.
Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended December 31, 2015 and 2014

(\$CDN)		Share	Warrants	Equity Component of Convertible Debentures	Foreign Currency Translation	Contributed surplus	Deficit	Total Shareholders' Deficiency
	Note	Capital						
As at December 31, 2013		48,634,926	6,224,687	-	-	3,318,483	(61,780,323)	(3,602,227)
Warrant expiry	13(D)	-	(4,761,078)	-	-	4,761,078	-	-
Foreign currency translation		-	-	-	341,196	-	-	341,196
Common shares issued, net of share issue costs	13(B)	2,502,500	-	-	-	-	-	2,502,500
Equity component of convertible debentures, net of deferred tax	10(c)	-	-	34,725	-	-	-	34,725
Stock-based compensation	14	-	-	-	-	755,994	-	755,994
Net loss		-	-	-	-	-	(11,608,851)	(11,608,851)
As at December 31, 2014		51,137,426	1,463,609	34,725	341,196	8,835,555	(73,389,174)	(11,576,663)
Warrant expiry	13(D)	-	(1,463,609)	-	-	1,463,609	-	-
Foreign currency translation		-	-	-	304,250	-	-	304,250
Equity component of convertible debentures settlement	10(c)	-	-	(34,725)	-	-	-	(34,725)
Fair value discount on promissory Note, net of deferred tax	10(f)	-	-	-	-	74,000	-	74,000
Common shares issued, net of share issue costs	13(B)	8,920,890	-	-	-	-	-	8,920,890
Business combination consideration	6	-	-	-	-	55,480	-	55,480
Stock-based compensation	14	-	-	-	-	446,694	-	446,694
Net loss		-	-	-	-	-	(2,691,618)	(2,691,618)
As at December 31, 2015		60,058,316	-	-	645,446	10,875,338	(76,080,792)	(4,501,692)

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

MONTANA EXPLORATION CORP.
Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(\$CDN)		2015	2014
Cash provided by (used for) the following activities:			
	Note		
Operating activities:			
Net loss		(2,691,618)	(11,608,851)
Add (deduct):			
Depletion, depreciation and amortization	9	155,354	220,783
Impairment (recovery) of exploration and evaluation assets and property, plant and equipment	8,9	(155,754)	4,340,169
Impairment of goodwill	6	753,323	-
Settlement of trade and other payables for common shares	13	26,000	-
Stock-based compensation	14	446,694	755,994
Gain on financial derivative instrument		-	(739,524)
Gain on settlement of debt	10	(3,721,746)	-
Accretion expense	15	93,029	130,171
Interest expense	10,15	813,012	846,071
Unrealized loss on short-term investments	7	777,778	1,742,222
Lease expiries	8	592,490	1,773,619
Deferred tax recovery	11	(27,000)	(11,575)
Abandonments	12	(464,548)	(53,870)
		<u>(3,402,986)</u>	<u>(2,604,791)</u>
Changes in non-cash working capital	20	1,420,385	295,857
Cash used in operating activities		(1,982,601)	(2,308,934)
Investment activities:			
Additions to property, plant and equipment	9	(187,765)	(112,177)
Additions to exploration and evaluation assets	8	(414,836)	(2,222,737)
Deposits		(1,512)	39,083
Cash acquired on Business combination	6	922,132	-
Changes in non-cash working capital	20	(39,797)	421,078
Cash from (used in) investing activities		278,222	(1,874,753)
Financing activities:			
Advance from shareholders	10(f), (g)	1,350,012	3,550,000
Advance from Gale Force prior to acquisition	10(e)	1,072,973	-
Common share issue costs	13(B)	(42,023)	(17,500)
Cash from financing activities		2,380,962	3,532,500
Effect of exchange rate changes on cash		35,711	68,981
Increase (decrease) in cash		712,294	(582,206)
Cash, beginning of the year		280,900	863,106
Cash, end of the year		993,194	280,900

No cash interest or cash taxes were paid for the years ended December 31, 2015 or 2014.

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

MONTANA EXPLORATION CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

All amounts disclosed are in Canadian dollars unless otherwise stated

1. General information

Montana Exploration Corp., (the “Company” or “Montana”) is in the business of exploring, developing and producing conventional petroleum and natural gas reserves in Alberta and Montana. These consolidated financial statements include the financial results of Montana Exploration Corp. and its wholly-owned subsidiaries Alberta Selecta Corporation, ANG Holding Corp., ANG Holding (U.S.) Corp., Montana Land and Exploration Inc., AltaCanada Energy Partnership, and Gale Force Petroleum Inc., including its wholly-owned U.S. subsidiaries GFP Texas Inc., and GFP Central USA Inc. The address of the registered office is Suite 2300, 144-4th Ave SW Calgary AB T2P 3N4. The common shares of the Company trade on the TSX Venture Exchange under the symbol MTZ.

2. Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

For the year ended December 31, 2015, the Company had negative cash flow from operating activities before changes in non-cash working capital of \$3,402,986 (2014 - \$2,604,791), reported a loss of \$2,691,618 (2014 - \$11,608,851), has net debt, as defined in Note 22, of \$7,313,091 (December 31, 2014 - \$12,275,912) and an accumulated deficit of \$76,080,792 (December 31, 2014 - \$73,389,174). Naturally declining production of petroleum and natural gas coupled with declining commodity prices have negatively impacted the Company’s cash flows from operations and in turn have reduced the ability of the Company to develop its properties without external financing. Certain Promissory Notes are past due and in default. Holders of these Notes have the right to pursue remedies available under the general security agreements associated with the Notes (see also Note 10(d)). Further in 2015, the Company was notified of liens filed against certain leasehold interests in the amount of approximately \$19,500 (\$15,000 USD). One of the Company’s suppliers has initiated legal action seeking payment of invoices and liquidated damages of \$229,860 USD (\$318,126 CDN). The Company does not dispute the amount owing. At December 31, 2015 no payments had been made, although settlement discussions were ongoing. All amounts have been fully accrued in the December 31, 2015 trade and other payables balance.

On February 12, 2016, the Company received an abandonment order on one of its wells in the State of Montana. The province of Alberta’s Energy Regulator (“AER”), has also issued an abandonment order for one non-compliant well in the province of Alberta. The estimated abandonment obligations for these two wells of \$110,671 have been moved from non-current to current liabilities on the consolidated statement of financial position. The Company intends to comply responsibly with these obligations, and is working on a plan and timeline. Seventeen wells were abandoned in the State of Montana in 2015.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

In order to address the above factors, during 2015 and subsequently the Company has:

- a) Completed an arrangement agreement (the “Arrangement Agreement”) with Gale Force Petroleum Inc. (“Gale Force”), pursuant to which the Company acquired all of the issued and outstanding common shares and Series III preferred shares of Gale Force by way of a statutory plan of arrangement. The transaction improved the Company’s consolidated statement of financial position by adding both cash assets and by the concurrent conversion of a significant portion of the Company’s outstanding debt to shareholders into equity. See notes 6 and 10 for further information.

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- b) Continued exploring financing through a combination of new equity and potential joint arrangements on its lands, in order to fund activity on its significant asset base and to pay outstanding trade payables, advances from shareholders and promissory notes. An acceptable joint arrangement would include an equalization payment in recognition of the Company's investment to date, and also a defined drilling commitment.
- c) Engaged several parties, on a best-efforts basis, to assist the Company with raising capital.
- d) Acquired approximately 46,000 undeveloped acres and some associated seismic data in the State of Montana on October 20, 2015 for \$700,000 USD comprised of \$200,000 USD in cash and \$500,000 USD in common shares of Montana issued at a deemed price of \$0.075 USD per share (\$0.10 CDN per share), for a total of 6,666,667 common shares. This acquisition increased the Company's working interest on some of its core acreage, making the prospective projects more attractive to investors and for financing purposes (Notes 8, 13B(d)).
- e) Executed an agreement ratified by the Board of Directors on November 30, 2015 whereby Montana became the strategic drilling partner of a utility company in the State of Montana. The Farm-in agreement covers approximately 315,000 acres in Blaine and Hill Counties in the State of Montana, including the rights to develop the shallow Eagle gas zone and to pursue the Shaunavon oil prospect and all other zones throughout the acreage. Under the terms of the Agreement, the Company is required to drill a minimum of ten wells throughout the Farm-in Acreage within 24 months, of which at least six wells must be Eagle gas wells. Following the initial drilling program, the Company has continual drilling rights throughout the Farm-in Acreage as long as each new well spuds within 90 days of completion of the prior well. The Company also has an arrangement with its partner to receive and review interpretations of the partner's 3D seismic data, which covers over 250 square miles, including the Farm-in Acreage. The Company will act as the operator of the program (Note 19).
- f) On August 18, 2015, issued a \$200,000 USD promissory note bearing 10% interest per annum to a significant shareholder and Director (related party) of the Company. The note matures on August 18, 2018. (Note 10(f)). The Company received additional advances from the same related party and will issue an additional promissory note for \$785,526 USD effective December 23, 2015 with a one year term bearing 10% interest per annum (Note 10(g)). Subsequent to December 31, 2015, an advance from the same related party of \$100,000 USD was received on April 7, 2016 and a promissory note was issued with a three year term bearing 10% interest per annum (Note 24).
- g) The Company is exploring ways of monetizing assets, including but not limited to the disposition of non-core assets, to help create further short-term liquidity.

The Company requires financing for working capital and the exploration and development of its properties and is actively seeking alternative sources of funds. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict and there can be no assurance whether financing efforts will be successful or if the Company will attain profitable levels of operation. Without access to further third-party funding, this material uncertainty casts significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenue and expenses and statement of financial position classifications that would be necessary if the Company is unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

MONTANA EXPLORATION CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

All amounts disclosed are in Canadian dollars unless otherwise stated

3. Basis of preparation

Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on April 18, 2016.

Basis of measurement

These consolidated financial statements are stated in Canadian dollars and were prepared on a going concern basis, under the historical cost convention except for derivative financial instruments which are measured at fair value.

Functional and presentation currency

The Company has presented these consolidated financial statements in Canadian Dollars ("CDN" or "\$") which is the Company's and subsidiaries' functional currency with the exceptions of Montana Land and Exploration Inc., GFP Texas Inc and GFP Central USA Inc (all of which are indirect 100% owned subsidiaries of Montana Exploration Corp.). The functional currency of these subsidiaries is the United States Dollar ("USD" or "US\$").

Changes in functional currency

The functional currency of Montana Land and Exploration Inc., a subsidiary of Montana Exploration Corp., changed on January 1, 2014 to the USD from the CDN following an analysis which determined that since its sales of petroleum and natural gas are now predominantly being sold in USD (previously sold in CDN) the change in functional currency is appropriate. On the date of change of functional currency all assets, liabilities, issued capital and other components of equity were translated into USD at the exchange rate on that date. There were no changes in the functional currencies of the Company's subsidiaries during the year ended December 31, 2015.

Use of estimates and judgments

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

a) Critical accounting judgments

Significant judgments are used in the application of accounting policies related to the following material amounts recognized or not recognized in the consolidated financial statements:

i. Going concern

Management has made judgments relating to future projected cash flows in order to assess the Company's ability to continue as a going concern. These judgments are based on the assumptions described in Note 2.

MONTANA EXPLORATION CORP.

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All amounts disclosed are in Canadian dollars unless otherwise stated

ii. Cash generating units and impairment indicators

For purposes of impairment testing, exploration and evaluation assets and property, plant and equipment are aggregated into cash-generating units ("CGUs"), based on separately identifiable and largely independent cash inflows. In addition, the Company assesses CGUs for impairment at least annually as well as when circumstances suggest that the carrying amount exceeds the recoverable amount, as well as the internal and external factors to determine if an impairment test is warranted. The Company's determination of its CGUs and when it tests for impairment other than annually is subject to judgment.

iii. Technical feasibility and commercial viability of exploration and evaluation assets

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves and other factors, results in the transfer of assets from exploration and evaluation assets to property, plant and equipment. This determination is subject to judgment.

iv. 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 judgment and estimates of the outcome of future events.

v. Functional currency

The designation of the Company's and its subsidiaries' functional currency is a management judgment based on the composition of revenue, expenses and financing in the locations in which it operates.

vi. Joint operations

A portion of the Company's activities are conducted jointly with others through joint arrangement agreements. Judgment is required to determine if the Company has joint control over these arrangements. In order to determine if the Company has joint control, the Company considers whether the arrangement is structured through a separate vehicle, rights and obligations of the parties arising from the arrangement and other facts and circumstances.

b) Critical accounting estimates

Significant estimates are used in the application of accounting policies related to the following material amounts recognized or not recognized in the consolidated financial statements:

i. Useful lives of property, plant and equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

MONTANA EXPLORATION CORP.

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All amounts disclosed are in Canadian dollars unless otherwise stated

ii. Stock-based payment transaction and warrants

The Company measures the cost of equity-settled transactions with employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for stock-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

iii. Decommissioning liabilities

Decommissioning liabilities are based, in part, on estimates of future costs to settle the liability, timing of future restoration and reclamation expenditures, the rate of inflation and the risk-free interest rate. Provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

iv. Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The assumption made and inputs used by the Company include discount rates. The allocation between debt and warrant components of convertible debentures issued are based on estimates of the interest rate the Company would pay on debt instruments without detachable warrants.

v. Assessment of commercial reserves

Management is required to assess the level of the Company's commercial reserves together with the future expenditures to access those reserves, which are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required and the determination of the deferred tax liability. By their nature, these estimates of proved and probable petroleum and natural gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risk-adjusted discount rate relevant to the asset in question are subject to measurement uncertainty. The Company employs an independent reserves specialist who annually assesses the Company's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Company's assets. Significant judgment is involved when determining whether there have been any significant changes in the Company's petroleum and natural gas reserves.

vi. Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities in various jurisdictions in which the Company and its subsidiaries operate. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

vii. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal

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calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. If there is no binding sale agreement or active market for an asset, fair value less costs of disposal is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use calculation is based on a discounted cash flow model. The cash flows are derived generally from the budgeted cash flows for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

4. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Consolidation

a) Subsidiaries

The consolidated financial statements include the accounts of the Company and its subsidiaries (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date that there is a loss of control. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions, are eliminated on consolidation.

The following table summarizes the Company's subsidiaries whose financial position and results have been consolidated in the consolidated financial statements:

Name	Percentage ownership	Country of formation	Nature of business
ANG Holding Corp.	100%	Canada	Operating Corporation
ANG Holding (US) Corp.	100%	USA	Operating Corporation
Montana Land and Exploration Inc.	100%	USA	Operating Corporation
Alberta Selecta Corporation	100%	Canada	Operating Corporation
AltaCanada Energy Partnership	100% ⁽¹⁾	Canada	Operating Partnership
Gale Force Petroleum Inc	100%	Canada	Operating Corporation
GFP Texas Inc	100%	USA	Operating Corporation
GFP Central USA Inc	100%	USA	Operating Corporation

⁽¹⁾AltaCanada Energy Partnership's partners are Montana Exploration Corp. (70.5%) and Alberta Selecta Corporation (29.5%), a 100% owned subsidiary of Montana Exploration Corp.

b) Joint arrangements

A portion of the Company's activities are conducted jointly with others through unincorporated jointly controlled operations and the consolidated financial statements reflect only the Company's proportionate interest in such activities. The Company has assessed the nature of its joint arrangements and determined

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them to be joint operations. The Company accounts for its proportionate joint operations by including its proportionate interest in assets, liabilities, revenue and expenses in the consolidated financial statements. Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100% working interest, all of the partners have control of the arrangement collectively and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are material to the Company or that are structured through joint venture arrangements.

Cash

Cash includes cash on deposit with the bank and on hand.

Revenue recognition

Revenue from the sale of petroleum 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. For natural gas, this is generally at the time product enters the pipeline. For petroleum, this is generally at the wellhead. For natural gas liquids, this is generally at the time the product is processed through a gas plant. Revenue is measured net of discounts and customs duties, if any.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Transportation costs relate to costs paid by the Company for the shipping of petroleum, natural gas and natural gas liquids from the wellhead to the point of transfer. These costs are recognized when the transportation is provided and are not netted against revenue.

Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency is United States Dollars (USD) for the Company's US subsidiaries: Montana Land and Exploration Inc., GFP Texas Inc., and GFP Central USA Inc. The functional currency is Canadian dollars (CDN) for the Canadian parent and other subsidiaries. For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in CDN, which is the presentation currency for the consolidated financial statements.

In preparing financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in the statement of comprehensive loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the companies using USD as their functional currency are expressed in CDN using exchange rates prevailing at the end of the reporting period. Revenue and expense items are translated at the average exchange rates for the period. Exchange differences are recognized in other comprehensive income and accumulated in a separate component of shareholders' deficiency as part of foreign currency translation adjustment.

Exchange differences arising from the translation of monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net

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investment in the foreign operation), are recognized initially in other comprehensive income. On the disposal or partial disposal or loss of control, joint control or significant influence of the net investment (reduction in ownership percentage), the accumulated amounts recognized in other comprehensive income are reclassified from equity to profit or loss. Management does not consider the repayment of quasi-equity loans designated as 'net investment' to qualify as a disposal and therefore no reclassification of exchange differences is made from equity to profit or loss when such repayment occurs. Where, as a result of a change in circumstances, a previously designated 'net investment' loan is settled (monetary items receivable from or payable to a foreign operation are actually repaid), the loan is de-designated and then exchange differences arising from the translation are accounted for in profit or loss from that point forward. The Company has adopted a policy to translate equity items at the historical rate when translating from functional currency to presentation currency.

Non-derivative financial instruments

Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

- a) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statement of comprehensive loss in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which are classified as long-term. Cash and short-term investments are included in this category.

- b) Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include trade and other receivables, deposits and carried working interest.

- c) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include trade and other payables, demand and mezzanine facility, advances from shareholders, promissory notes and convertible debentures.

- d) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry, where this is transferred to common shares or contributed surplus.

Derivative financial instruments

The Company may enter into a variety of derivative financial instruments to manage its exposure to market risks. Derivative financial instruments are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company has not designated any of its derivative financial instruments as hedging instruments and therefore recognizes the resulting fair value gain or loss in profit or loss.

Exploration and evaluation expenditures

General exploration and evaluation ("E&E") expenditures incurred prior to acquiring the legal right to explore are charged to the consolidated statement of comprehensive loss as incurred.

E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. E&E assets are not depleted and are moved into property, plant and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property, plant and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

E&E assets are assessed for impairment at the CGU level when there are indicators of impairment. The Company considers the following to be indicators of impairment:

- (a) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- (b) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- (c) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and,
- (d) Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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Property, plant and equipment

Property, plant and equipment include petroleum and natural gas properties and other assets.

a) Petroleum and natural gas properties

Expenditures on petroleum and natural gas properties to which proved and/or probable reserves have been assigned, such as drilling of development wells, tangible costs of facilities and infrastructure construction are capitalized to petroleum and natural gas properties when it is probable that a future economic benefit will flow to the Company as a result of the expenditure and the cost can be reliably measured.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liabilities associated with the asset and finance charges on qualifying assets.

Depletion and Depreciation

Petroleum and natural gas properties are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Petroleum and natural gas properties are depleted using the unit-of-production method over their reserve life based on proved plus probable reserve volumes. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Disposals

Petroleum and natural gas properties are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on de-recognition of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the consolidated statement of comprehensive loss in the period of de-recognition.

b) Other assets

Other assets are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value over their estimated useful economic lives, for the following classes of assets:

	Method	Rate
Office Equipment	Declining balance	20 – 30%
Computer software	Declining balance	20 – 30%
Computer hardware	Declining balance	20 – 30%
Leasehold improvements	Declining balance	20 – 30%

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

Goodwill is the amount that results when the fair value of consideration transferred for an acquired business exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Goodwill is assigned, as of the date of the business combination, to a CGU or groups of CGUs that are expected to benefit from the business combination. Each CGU represents the lowest level at which goodwill is monitored for internal management purposes and it is never larger than an operating segment.

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Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU or units to which the goodwill relates. Where the recoverable amount of the CGU or units is less than the carrying amount, an impairment loss is recognized.

Impairment

a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

b) Non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its long lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Fair value is determined to be the amount for which the asset could be sold in an orderly transaction between market participants. Fair value less costs of disposal may be determined using discounted future net cash flows of proved plus probable reserves, using forecast pricing and operating costs and including future development costs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Stock-based compensation

The Company operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and contractors as consideration for equity instruments of the Company.

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The Company uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. When recognizing the fair value of each tranche over its respective vesting period, the Company incorporates an estimate of the number of options expected to vest and revises that estimate when subsequent information indicates that the number of options expected to vest differs from previous estimates.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the expense relating to any provision is presented in the consolidated statement of comprehensive loss net of the reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statement of comprehensive loss.

a) Decommissioning liabilities

The Company provides for the costs of decommissioning associated with long-lived assets, including the abandonment of petroleum and natural gas wells, related facilities, compressors, natural gas plants, removal of equipment from leased acreage and returning such land in a condition as it is contractually or statutorily obligated. The best estimate of each asset decommissioning liability is recorded in the period a well or related asset is drilled and evaluated, constructed or acquired. Decommissioning liabilities are measured in the consolidated statement of financial position at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A corresponding amount is capitalized as part of tangible non-financial assets. Any further adjustment arising from a reassessment of estimated cost of the decommissioning liabilities or a change in the discount rate also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the decommissioning liabilities is treated as a component of finance costs in the consolidated statement of comprehensive loss.

b) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract. The Company is not currently party to any onerous contracts.

Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

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a) Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax basis used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Finance expenses

Finance expenses comprise interest expense on borrowings and accretion of provisions. Any cash interest paid is classified as an operating activity on the statement of cash flows.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing profit or loss attributable to owners of the Company (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options, convertible debentures and other dilutive potential units. The effects of anti-dilutive potential units are

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ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

5. Changes in accounting policies and future accounting policies

Changes in accounting policies

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2015 that had a material effect on the Company's consolidated financial statements.

Future accounting policies

The Company will be required to adopt the following future standards:

- a) On May 28, 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" which is the result of the joint project with Financial Accounting Standards Board ("FASB"). The new standard replaces the two main recognition standards IAS 18, "Revenue" and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principal upon which an entity recognizes revenue, whereby an entity must recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. On July 22, 2015, the IASB announced an amendment to IFRS 15, deferring the effective date of the standard by one year to years beginning on or after January 1, 2018, with early adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is evaluating the impact on its consolidated financial statements of adopting IFRS 15.
- b) IFRS 9, "Financial Instruments" addresses the classification and measurement of financial assets. IFRS 9 replaces the guidance on "classification and measurement" of financial instruments in IAS 39, "Financial Instruments – Recognition and Measurement". The new standard requires a consistent approach to the classification of financial assets and replaces the numerous categories of financial assets in IAS 39 with two categories, measured at either amortized cost or at fair value. For financial liabilities, the standard retains most of the IAS 39 requirements, but where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of profit and loss, unless this creates an accounting mismatch. It also includes a new general hedge accounting model. The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 is being assessed to determine its impact on the Company's results and financial position.
- c) IFRS 11, "Joint Arrangements" was amended to add new guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The amendments to IFRS 11 are effective for annual reporting periods beginning on or after January 1, 2016. The amendments will not impact the Company's consolidated financial statements.
- d) On January 13, 2016, the IASB issued IFRS 16, *Leases*, which requires entities to recognize lease assets and lease obligations on the consolidated statement of financial position. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is evaluating the impact on its consolidated financial statements of adopting IFRS 16.

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6. Business combination

Gale Force Transaction

On September 18, 2015, the Company acquired all of the issued and outstanding shares of Gale Force Petroleum Inc. ("Gale Force"). As consideration, the Company issued 42,751,418 common shares at \$0.06 per common share and 3,394,500 replacement options with an exercise price of \$0.13 per replacement option. The terms of the replacement options are governed by the Arrangement Agreement.

The purpose of the acquisition was to acquire cash to fund the Company's current working capital deficiency and future capital projects. As a condition of closing the acquisition, the Company repaid approximately \$9.3 million of its existing indebtedness and accrued interest with common shares of Montana, which significantly reduced the liabilities of Montana (see Note 10).

The transaction was accounted for as a business combination using the acquisition method of accounting under IFRS 3 - Business Combinations ("IFRS 3"). The fair value attributed to property, plant and equipment acquired was \$Nil. Goodwill was recognized as a result of a decrease in expected cash acquired compared to when the acquisition was negotiated in June 2015. The goodwill was allocated to the Pine Mills CGU, the remaining petroleum and natural gas asset of Gale Force located in Texas. At December 31, 2015, the Company tested its goodwill for impairment. The acquired Pine Mills CGU was not independently evaluated by the Company's reserves engineers as the reserves are not economic to produce at current commodity prices. Given that the CGU was not of strategic importance to the Company and is currently not economic, goodwill was fully impaired at December 31, 2015. The decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of the wells acquired. The number of common shares issued pursuant to the acquisition was negotiated based on \$0.10 per common share of Montana. Under IFRS 3, the value of common share consideration must be recognized based on the acquisition date fair value. Accordingly, the value of the common share consideration is based on the closing price of Montana common shares on September 18, 2015 of \$0.06 per common share. Where there are acquiree stock options that are exchanged for stock options held by the Company, the market-based measure of the replacement options is allocated between the consideration and post-combination service in accordance with IFRS 3.

The market-based value of the replacement options was measured using the Black-Scholes option pricing model. The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	Original options	Replacement options
Share price (\$)	0.03	0.06
Exercise price (\$)	0.06	0.13
Risk-free interest rate (%)	0.50	0.50
Expected volatility (%)	89.0	160.0
Expected life (years)	4.13	2.37
Expected dividend yield (%)	-	-
Expected forfeiture rate (%)	-	-
Market-based value (\$)	0.02	0.04

The fair value of the assets acquired and liabilities assumed at the date of acquisition, using an exchange rate of \$1.3147 USD to CDN, is summarized below.

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Consideration:

Fair value of common shares issued	\$	2,565,085
Market-based value of replacement options exchanged		132,256
Less: unvested portion of the market-based value of original options		(55,480)
Less: excess of market-based value of vested replacement options over the original options		(21,296)
Total consideration	\$	<u>2,620,565</u>

Fair value of net assets acquired:

Cash	\$	922,132
Accounts receivable		324,286
Secured note and related interest of \$40,800 due from Montana (Note 10(e))		1,113,773
Carried working interest receivable		750,894
Goodwill		753,323
Trade and other payables		(748,306)
Trade and other payables settled through the issuance of Montana common shares		(224,485)
Decommissioning liabilities		(271,052)
Total net assets acquired	\$	<u>2,620,565</u>

The Company has not recognized any deferred tax assets since it cannot currently demonstrate that it is probable that this potential value will be realized. Trade and other payables with a fair value of approximately \$224,485 were settled by Montana on September 18, 2015 through the issuance of 3,741,412 common shares at \$0.06 per common share (Note 13(B)(c)). The secured note and related interest due from Montana eliminate on consolidation.

The carried working interest receivable is considered a financial asset and is classified as loans and receivables and is being subsequently measured at amortized cost using an effective interest rate of 15% per annum. As costs are incurred by the carrying party, the amount is drawn down and is recorded as property, plant and equipment or production costs, depending on the nature of the expense. The unspent portion at December 31, 2015, adjusted for accretion of \$32,717 and foreign exchange differences of \$40,772, was \$824,383. The undiscounted balance is \$1,000,000 USD and any unspent balance will be refunded to the Company by June, 2019, subject to the outcome of the Notice of Claim as described in Note 19(d).

Total transaction costs incurred by the Company of \$371,373 associated with this acquisition were expensed in the consolidated statement of comprehensive loss.

Results from operations for Gale Force are included in the Company's consolidated financial statements from the closing date of the transaction, being September 18, 2015. Specifically, the Company's net loss for the year ended December 31, 2015 includes approximately \$37,547 of petroleum and natural gas sales and \$1,025,679 of operating loss generated from Gale Force subsequent to closing. If the Company had acquired Gale Force on January 1, 2015, the pro-forma petroleum and natural gas sales and operating loss for the year ended December 31, 2015 would have been approximately \$1,173,000 and \$1,083,000, respectively. Operating loss is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

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7. Short-term investments

	Cost	Accumulated unrealized gain (loss)	Fair value
	\$	\$	\$
December 31, 2015			
Waldron Energy Corp.	2,520,000	(2,520,000)	-

Pursuant to a share exchange agreement, the Company acquired 7,777,778 common shares of Waldron Energy Corp. ("Waldron") from a significant shareholder and Director (related party) of the Company on June 10, 2014 in exchange for 14,000,000 common shares of the Company (see also Note 13B(b)). On August 14, 2015, the common shares of Waldron were suspended from trading on the TSX Exchange until their scheduled delisting on September 4, 2015. On August 17, 2015, Waldron went into receivership. The fair value of the investment in Waldron was determined to be \$Nil based on this information, and gives rise to an unrealized loss in the amount of \$777,778 for the year ended December 31, 2015 (December 31, 2014 \$1,742,222).

The investment in Waldron, a publicly traded corporation listed on the TSX, was initially valued at the market price of the Company's common shares on the date of issuance, is classified as fair value through profit or loss and is measured as a Level 1 asset in the fair value hierarchy (see Note 21).

8. Exploration and evaluation assets

	December 31, 2015	December 31, 2014
	\$	\$
Balance, beginning of year	4,324,050	6,862,082
Additions	414,836	2,222,737
Additions acquired through share capital (Note 13(B)(d))	400,000	-
Transferred to property, plant and equipment (Note 9)	-	(701,549)
Changes in estimates to decommissioning liabilities	-	(2,907)
Additions to decommissioning liabilities	32,717	23,018
Lease expiries	(592,490)	(1,773,619)
Impairment	(76,974)	(2,839,310)
Exchange differences	808,726	533,598
Balance, end of year	5,310,865	4,324,050

The Company recognized lease expiries of \$592,490 (2014 - \$1,773,619) during the year ended December 31, 2015 as it did not renew certain non-producing leases in its US operating segment. The Company also maintains a three month look-forward policy to determine its lease expiries for the current period and therefore the amount of lease expiries includes an estimate of leases the Company expects to expire during the three months ended March 31, 2016.

The Company recorded an impairment charge of \$76,974 for the year ended December 31, 2015 (2014 - \$2,839,310). Of this current impairment charge, \$16,032 relates to new charges to the 6-32 Battle Creek well in the Battle Creek CGU (US operating segment). The remaining \$60,942 relates to charges recorded as capital expenditures on the White Bear CGU (US operating segment) which have been subsequently impaired as the Company does not intend to continue with development in either of these areas. Depending on the extent of a commodity price recovery, these wells may be completed and developed into producing petroleum wells at which time the Company will reverse the impairment recorded. In 2014,

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\$2,444,445 of the total impairment expense relates to costs paid to drill four Battle Creek CGU (US operating segment) wells in 2013 and 2014 which were deemed uneconomic in 2014. The Company recorded an impairment charge of \$309,435 relating to the Cherry Patch CGU (US operating segment) as a result of poor economics. The remaining impairment charge of \$85,430 relates to the Company's other minor properties in its Canadian geographical segment.

During the year ended December 31, 2015, \$nil of general and administrative costs were capitalized (2014 – \$62,160).

Asset Purchase

In June 2015, the Company entered into an agreement to purchase certain exploration and evaluation assets from a joint operations partner with the effect of increasing the Company's working interest in certain undeveloped lands and seismic data for \$700,000 USD plus adjustments, of which \$200,000 USD was cash consideration and \$500,000 USD was in Company common shares. The transaction closed in October 2015. The share price was a deemed \$0.075 USD per share (\$0.10 CDN per share), which resulted in the issue of 6,666,667 shares. Under IFRS, the value of the common share consideration must be recognized based on the acquisition date fair value. Accordingly, the value of the common share consideration is based on the closing price of Montana common shares on October 20, 2015 of \$0.06 CDN per share. No transaction costs were incurred.

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9. Property, plant and equipment

	Petroleum and natural gas properties \$	Office equipment \$	Total \$
At January 1, 2014	18,860,798	358,280	19,219,078
Additions	112,177	-	112,177
Transferred from exploration and evaluation assets (Note 8)	701,549	-	701,549
Changes in decommissioning liabilities (Note 12)	1,469,043	-	1,469,043
Exchange differences	13,089	-	13,089
At December 31, 2014	<u>21,156,656</u>	<u>358,280</u>	<u>21,514,936</u>
Additions	187,765	-	187,765
Changes in decommissioning liabilities (Note 12)	(1,420,092)	-	(1,420,092)
Exchange differences	80,666	-	80,666
At December 31, 2015	<u>20,004,995</u>	<u>358,280</u>	<u>20,363,275</u>
Accumulated depletion, depreciation and impairments:			
At January 1, 2014	(18,410,947)	(319,143)	(18,730,090)
Depletion, depreciation and amortization	(210,382)	(10,401)	(220,783)
Impairment	(1,500,859)	-	(1,500,859)
Exchange differences	12,457	-	12,457
At December 31, 2014	<u>(20,109,731)</u>	<u>(329,544)</u>	<u>(20,439,275)</u>
Depletion, depreciation and amortization	(147,805)	(7,549)	(155,354)
Impairment, net of reversals	232,728	-	232,728
Exchange differences	76,675	-	76,675
At December 31, 2015	<u>(19,948,133)</u>	<u>(337,093)</u>	<u>(20,285,226)</u>
Net Book Value:			
At December 31, 2014	1,046,925	28,736	1,075,661
At December 31, 2015	<u>56,862</u>	<u>21,187</u>	<u>78,049</u>

Future development costs on proved plus probable reserves totaling approximately \$705,000 (2014 - \$705,000) are included in the calculation of depletion for the year ended December 31, 2015.

At each period end the Company assesses whether any CGU's have indicators of impairment. When indicators of impairment are identified, the Company assesses the recoverable amount of the applicable CGU based on the greater of fair value less costs of disposal and value in use as at the reporting date. Prolonged reductions to long term forecasted future petroleum and natural gas benchmark pricing indicated that CGUs may be impaired. Further, external engineer reserve valuations for all CGUs decreased from the prior year, which indicated potential impairment. As well, due to lower commodity prices, the Company has decided not to pursue further development in certain CGUs.

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For the purposes of determining whether impairment of assets has occurred, and the extent of any impairment or its reversal, management exercises their judgment in estimating future cash flows for the recoverable amount. These key judgments include estimates about recoverable reserves, forecast benchmark commodity prices, royalties, operating costs and discount rates.

The Company estimated the recoverable amount based on the fair value less costs of disposal, determined with an pre-tax discount rate of 15% (December 31, 2014 – 15%), forecasted cash flows over the estimated life of proved and probable reserves, and an independent industry reserve engineer price forecast. Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU and an approximate weighted average cost of capital for potential acquirers of Montana or Montana's CGUs. The forecasted cash flows are prepared over the estimated life of the reserves in the CGUs. The determination of fair value less costs of disposal is a Level 3 measurement within the fair value hierarchy (see Note 21).

Based on the above assessments, the following Canadian segment CGUs were impaired (reversed) by the following amounts:

	December 31, 2015 \$	December 31, 2014 \$
Viking Kinsella	(717,268)	923,212
Cardiff	(64,533)	259,058
Killam/Sedgwick	(84,069)	214,840
Minor properties	(211,281)	103,749
Total	(1,077,151)	1,500,859

The above-noted CGUs are all geographical areas located within the Company's Canadian geographical segment. The resulting impairment for the year ended December 31, 2014 was a result of the Company increasing its estimate of decommissioning liabilities for its Canadian properties.

During the year ended December 31, 2015, the Company decreased its estimate of decommissioning liabilities for its Canadian segment CGUs as a result of changing its estimated years to abandon. This change in estimate results in a recovery of prior year impairment.

The recoverable amount for the Company's Canadian segment CGUs is \$nil as there are currently no economically recoverable reserves in the current pricing environment.

The Company's US geographical segment was tested for impairment in 2015 and in 2014. The US operating segment CGUs were impaired by the following amounts:

	December 31, 2015 \$	December 31, 2014 \$
Battle Creek	917,661	-
Cherry Patch	(188,219)	-
Pine Mills	40,719	-
White Bear	74,262	-
Total	844,423	-

The impairment of the Battle Creek CGU was principally due to decreased commodity prices and declining reserves. The Cherry Patch, White Bear and Pine Mills CGUs were fully impaired as there are currently no

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economically recoverable reserves in the current pricing environment and therefore the CGUs have a fair value of \$nil. The Cherry Patch recovery was a result of changes in decommissioning estimates. The recoverable amounts of the US operating segment CGUs are as follows:

	December 31, 2015
	\$
Battle Creek	56,862
Cherry Patch	-
Pine Mills	-
White Bear	-
Total	56,862

A sensitivity analysis by increasing the discount rate by 5% would increase impairment by approximately \$6,000 in the US geographical CGUs for the year ended December 31, 2015.

The following table outlines forecasted commodity prices used in the Company's CGU impairment tests at December 31, 2015:

	AECO (\$Cdn/mmbtu)	WTI, Cushing OK (\$USD/Bbl)
2016	2.76	44.00
2017	3.27	52.00
2018	3.45	58.00
2019	3.63	64.00
2020	3.81	70.00
2021	3.90	75.00
2022	4.10	80.00
2023	4.30	85.00
2024	4.50	87.88
2025	4.60	89.63
2026+	+2%/year	+2%/year

The following table outlines forecasted commodity prices used in the Company's CGU impairment tests at December 31, 2014:

	AECO (\$Cdn/mmbtu)	WIT, Cushing OK (\$USD/Bbl)
2015	3.31	62.50
2016	3.77	75.00
2017	4.02	80.00
2018	4.27	85.00
2019	4.53	90.00
2020	4.78	95.00
2021	5.03	98.54
2022	5.28	100.51
2023	5.53	102.52
2024	5.71	104.57
2025+	+2%/year	+2%/year

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10. Indebtedness

		December 31, 2015	December 31, 2014
		\$	\$
Demand facility	(a)	-	400,000
Mezzanine facility	(b)	-	1,065,000
Advances from shareholders	(c)	-	2,800,000
Convertible debentures	(c)	-	3,247,656
Promissory notes (current liability)	(d)	780,801	780,801
Advances from an unrelated party	(e)	-	-
Promissory note (long-term liability)	(f)	170,400	-
Advance from shareholder	(g)	1,086,712	-
		2,037,913	8,293,457
Less current portion		1,867,513	8,293,457
Non-current portion		170,400	-

a) Demand facility

The demand facility, held by a Director and significant shareholder of the Company since February of 2012, bore interest at 7% per annum on the principal balance and 9% per annum on any unpaid interest. The facility, which had been drawn to varying amounts between \$400,000 and \$4,310,678 since February 2012, was of a demand nature and could be called at any time. On September 18, 2015, the \$400,000 principal plus total accrued interest of \$342,576 (of which \$311,729 was accrued at December 31, 2014 in trade and other payables) was converted into 7,425,763 common shares at an agreed to value of \$0.10 per common share as a condition of closing of the acquisition of Gale Force (Note 6). The fair value of the common shares issued on September 18 had decreased to \$0.06 per common share based on the closing price of Montana common shares on September 18, 2015, resulting in a gain on settlement of debt of \$297,030. Total interest expense for the years ended December 31, 2015 and 2014 was \$30,847 and \$59,781 respectively.

b) Mezzanine facility

On April 1, 2013, \$1,065,000 due under the Company's mezzanine facility, which bore interest at a rate of 8% per annum, was assigned by the lender to a company controlled by a Director and significant shareholder of the Company (related party). On July 11, 2013, the term of this facility was extended to November 1, 2014 in exchange for 1,333,333 common shares. On September 18, 2015, the \$1,065,000 principal plus total accrued interest of \$247,468 (of which \$176,447 was accrued at December 31, 2014 in trade and other payables) was converted into 13,124,680 common shares at an agreed to value of \$0.10 per common share as a condition of closing of the acquisition of Gale Force (Note 6). The fair value of the shares issued on September 18 had decreased to \$0.06 per common share based on the closing price of Montana shares on September 18, 2015, resulting in a gain on settlement of debt of \$524,987. Total interest expense for the years ended December 31, 2015 and 2014 was \$71,020 and \$161,448, respectively.

c) Advances from shareholders and convertible debentures

In the fourth quarter of 2013, the Company received \$2,500,000 of unsecured advances bearing interest at a rate of 12% per annum from two companies controlled by two Directors of the Company who are also significant shareholders (related parties). On January 27, 2014 another advance of \$750,000 was received by the Company from one of the companies and on April 3, 2014 an additional advance of \$750,000, bearing interest at 12% per annum was received by the Company from the same company. On July 2, 2014, August 15, 2014 and December 12, 2014, the Company received further advances from the same

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company controlled by a Director and significant shareholder of the Company in the amounts of \$550,000, \$1,000,000 and \$500,000 respectively, bearing interest at 12% per annum.

On July 23, 2014, \$3,250,000 of the total \$6,050,000 shareholder advances were exchanged for convertible debentures which bore interest at 12% per annum, matured five years from the date each advance was initially received, were secured by a fixed and floating charge over all of the Company's assets and were convertible at the option of the holder into common shares of the Company at \$0.25 per common share. Debenture holders could demand re-payment at any time after one year from the date of the original advance. The debentures were classified as debt, net of the fair value of the conversion feature at the date of issuance, which was classified in shareholders' deficiency. The fair value of the conversion feature was determined at the date of issuance as the difference between the face value of the debentures and the discounted cash flows assuming a 17.5% effective interest rate, which was the estimated rate for debt with similar terms but without a conversion feature. The fair value of the debt portion was accreted to the demand repayment date such that the debt portion accreted to the original face value. Accretion of \$2,344 (2014 – \$43,956) for the year ended December 31, 2015 has been recorded on the consolidated statement of comprehensive loss.

The following table summarizes the Convertible debentures and Advances from shareholders:

Advance Date	Conversion rate (\$/share)	Amount (\$)
<i>Convertible debentures, due on demand</i>		
October 18, 2013	0.25	500,000
October 21, 2013	0.25	500,000
November 29, 2013	0.25	750,000
November 29, 2013	0.25	750,000
January 27, 2014	0.25	750,000
		3,250,000
Advance Date		Amount (\$)
<i>Advances from shareholders, due on demand</i>		
April 3, 2014		750,000
July 2, 2014		550,000
August 15, 2014		1,000,000
December 12, 2014		500,000
		2,800,000

The following table sets forth a reconciliation of the convertible debentures for the years ended December 31, 2015 and 2014:

	Liability Component (\$)	Equity Conversion Feature (\$)	Total (\$)
Balance, January 1, 2014	-	-	-
Exchange of advances from shareholders	3,203,700	46,300	3,250,000
Deferred tax liability (Note 11)	-	(11,575)	(11,575)
Accretion of discount (Note 15)	43,956	-	43,956
Balance, December 31, 2014	3,247,656	34,725	3,282,381

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	Liability Component (\$)	Equity Conversion Feature (\$)	Total (\$)
Balance, beginning of year	3,247,656	34,725	3,282,381
Accretion of discount (Note 15)	2,344	-	2,344
Repayment of convertible debentures (Note 13(B))	(3,250,000)	(34,725)	(3,284,725)
Balance, end of year	-	-	-

On September 18, 2015, the principal amount of \$6,050,000 plus total accrued interest of \$1,199,320 (of which \$617,605 was accrued at December 31, 2014 in trade and other payables) was converted into 72,493,199 common shares at an agreed to value of \$0.10 per common share as a condition of closing of the acquisition of Gale Force (Note 6). The fair value of the common shares issued on September 18 had decreased to \$0.06 per common share, based on the closing price of Montana shares on September 18, 2015, resulting in a gain on the settlement of debt of \$2,899,729. Total interest expense for the year ending December 31, 2015 was \$581,715 (2014 - \$577,988).

d) Promissory notes (current liabilities)

Promissory notes, totalling \$780,801, bear interest at the National Bank of Canada prime rate plus 2.5% per annum. Interest on the notes may, at the election of the Company, be paid by the issuance of common shares priced at the prevailing fifteen day weighted average share trading price. The principal amount of these notes and interest thereon was due and payable in 2013. Holders of the promissory notes have the right to pursue remedies available under the general security agreement associated with the promissory notes. Unpaid interest of \$147,424 has been included in trade and other payables at December 31, 2015 (2014 - \$97,926). Total interest expense for the year ending December 31, 2015 was \$49,499 (2014 - \$46,854).

e) Advances from an unrelated party

On March 12, 2015 the Company issued a \$200,000 promissory note bearing interest at a rate of 5% per annum to an unrelated party at the time, Gale Force. The note matured on June 7, 2015 and was secured by certain US assets of the Company. The interest rate increased to 15% per annum for any unpaid amounts after June 7, 2015. Holders of the demand and mezzanine facilities had subordinated their debt position to this note. The Company received a further \$200,000 as a part of this arrangement on April 22, 2015, \$100,000 on May 14, 2015, \$36,554 on June 17, 2015, \$249,770 on June 26, 2015 and \$286,649 on July 16, 2015. The total of the advances at September 17, 2015 was \$1,072,973. Total interest expense for the year ended December 31, 2015 was \$40,800. Subsequent to the acquisition of Gale Force (Note 6), the amounts owing and related interest payable were eliminated on consolidation.

f) Promissory note (long-term liability)

On August 18, 2015 the Company issued a \$200,000 USD (\$263,300 CDN) promissory note bearing interest at a rate of 10% per annum to be paid annually to a major shareholder and director (related party). The note matures and shall be payable on August 18, 2018. The fair value of the promissory note was estimated using discounted cash flows and is being accreted up to the principal amount on maturity, using an effective interest of 17.5%. The difference between the fair value and the carrying amount of \$101,000 is considered a capital contribution, and was recorded net of deferred tax of \$27,000 in contributed surplus in the consolidated statement of financial position. Accretion of \$8,100 (2014 - \$nil) has been recorded in the consolidated statement of comprehensive loss. Interest expense for the year ended December 31, 2015 was \$10,021 which is accrued as trade and other payables.

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	Liability Component (\$)	Equity Component (\$)	Total (\$)
Balance, beginning of year	-	-	-
Promissory note	\$162,300	101,000	263,300
Deferred tax liability (Note 11)	-	(27,000)	(27,000)
Accretion of the discount (Note 15)	8,100	-	8,100
Foreign exchange	-	-	-
Balance, end of year	170,400	74,000	244,400

g) *Outstanding advances from shareholders*

On December 23, 2015, the Company received loans from and will issue a promissory note to a company controlled by an individual who is a Director of the Company and a significant shareholder (related party), in the amount of \$1,086,712 (\$785,526 USD). The principal amount is due December 23, 2016 and shall bear interest at 10% per annum paid annually. Interest expense for the year ended December 31, 2015 was \$2,409 which is accrued as trade and other payables.

11. Taxes

The Company has unrecognized deferred tax assets since it cannot currently demonstrate that it is probable that this potential value will be realized.

The following is a reconciliation of taxes calculated at the combined statutory tax rate to the tax recovery for the year ended December 31, 2015 and 2014:

	2015	2014
Loss before tax	(2,718,618)	(11,620,426)
Canadian statutory tax rate	27%	25%
Income tax recovery computed at statutory tax rate	(734,027)	(2,905,107)
Reconciling items:		
Stock-based compensation	120,607	188,999
Effect of different US statutory tax rates on earnings of US subsidiaries	(361,754)	(700,118)
Goodwill impairment	203,397	-
Expiration of non-capital losses	206,057	422,355
Change in unrecognized deferred tax asset	538,720	2,924,986
Other	-	57,310
Tax recovery	(27,000)	(11,575)

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	2015	2014
	(\$)	(\$)
Unrecognized deferred tax assets		
Property, plant, and equipment and exploration and evaluation assets	(1,957,550)	(1,393,297)
Provisions for decommissioning liabilities	1,211,810	1,453,843
Share issuance costs	94,965	152,961
Net operating losses	24,760,533	20,750,362
Convertible debentures	-	(586)
Promissory notes	(25,083)	-
Short-term investments	680,400	435,556
Other	122,071	113,029
Total unrecognized deferred tax assets	24,887,146	21,511,868

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefit of these assets is dependent upon numerous factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

The Company has \$28,743,000 of non-capital losses available to it to reduce future Canadian taxable income, which expire between 2026 and 2035. The Company has \$44,213,000 CDN of net operating losses available to it to reduce taxable income earned by its US subsidiary companies. These losses expire between 2023 and 2035.

The statutory Canadian Federal income tax rate is 15%. During the year ended December 31, 2015, the Alberta provincial tax rate increased from 10% to 12%. The US federal and state rate is 38.45%.

The Company acquired approximately \$5.5 million of net operating losses on acquisition of Gale Force which is included as an unrecognized deferred tax asset.

The deferred tax recovery for the year ended December 31, 2015 of \$27,000 (2014 - \$11,575) is a result of recognizing a deferred tax asset to offset the deferred tax liability recognized on the issuance of promissory notes and convertible debentures, respectively (see Notes 10(c), 10(f)).

12. Decommissioning liabilities

The Company makes provision for the future cost of decommissioning petroleum and natural gas properties on a discounted basis. Total undiscounted inflated costs of \$4,638,373 (2014 - \$8,421,587) are expected to be settled over a period of 1 to 20 years into the future. The provision has been estimated using existing technology at current prices. The economic life and the timing of the decommissioning liability are dependent on Government legislation, commodity prices and the future petroleum and natural gas production profiles. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party services. An inflation factor of 2% has been applied to the estimated decommissioning cost at December 31, 2015 and December 31, 2014. The average risk-free rate of approximately 1.72% (2014 - 2.75%) was used to calculate the fair value of the decommissioning liabilities at December 31, 2015 and December 31, 2014.

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	December 31, 2015 \$	December 31, 2014 \$
Balance, beginning of year	4,875,151	3,215,001
Additions	37,809	23,018
Acquired on Business combination (Note 6)	271,052	-
Changes in estimate ⁽¹⁾	(1,698,606)	1,073,311
Changes in discount rates	273,424	392,826
Accretion (Note 15)	115,302	86,215
Abandonment costs incurred ⁽²⁾	(464,548)	(53,870)
Exchange differences	313,062	138,650
Balance, end of year	3,722,646	4,875,151
Current portion	110,671	-
Long term portion	3,611,975	4,875,151

⁽¹⁾ Changes in estimate includes changes in estimates of costs of abandonment and reclamation and changes to expected timing of expenditures due to reduced reserve lives.

⁽²⁾ The Company abandoned 17 wells in the State of Montana in the year ended December 31, 2015.

The current portion of the decommissioning liabilities relates to wells in the State of Montana and the Province of Alberta where the Company has either been ordered or reasonably expects to receive an order to abandon and reclaim the wells within the next twelve months. The breakdown of the liability by jurisdiction and by classification of current or non-current as at December 31, 2015 is as follows:

Jurisdiction	Current liability \$	Non-current liability \$	Total liability \$
Alberta, Canada	69,181	1,847,654	1,916,835
Montana, USA	41,490	1,476,242	1,517,732
Texas, USA	-	288,079	288,079
Total	110,671	3,611,975	3,722,646

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13. Share capital and reserves

A) Authorized

The Company is authorized to issue an unlimited number of common or preferred shares without nominal or par value.

B) Issued common shares

	Number of Shares	\$
Balance, December 31, 2013	87,451,268	48,634,926
Issued pursuant to exchange agreement (a)	14,000,000	2,520,000
Share issue costs (a)	-	(17,500)
Balance, December 31, 2014	<u>101,451,268</u>	<u>51,137,426</u>
Shares issued in settlement of trade and other payables (b)	1,300,000	156,000
Shares issued in settlement of demand facility (Notes 10(a), (c))	7,425,763	445,546
Shares issued in settlement of mezzanine facility (Notes 10(b), (c))	13,124,680	787,481
Shares issued in settlement of advances from shareholders (Notes 10(c), (c))	32,171,257	1,930,275
Shares issued in settlement of convertible debentures (Notes 10(c), (c))	40,321,942	2,419,316
Reclassify equity component of convertible debenture (Note 10(c))	-	34,725
Shares issued in Gale Force business combination (Note 6)	42,751,418	2,565,085
Shares issued in settlement of Gale Force debts (Note 6)	3,741,412	224,485
Shares issued in acquisition of exploration and evaluation assets (d)	6,666,667	400,000
Share issue costs	-	(42,023)
Balance, December 31, 2015	<u>248,954,407</u>	<u>60,058,316</u>

- a) The Company issued 14,000,000 common shares to a Director and significant shareholder of the Company in exchange for 7,777,778 shares of Waldron Energy Ltd. on June 10, 2014. The value of Montana shares was based on the Company's trading price on the day of issuance of \$0.18 per share (see also Note 7). This non-cash transaction has been excluded from the consolidated statement of cash flows. The Company incurred \$17,500 of share issue costs related to this issuance.
- b) The Company issued 1,300,000 common shares to Waldron Energy Ltd. on June 23, 2015 in settlement of certain trade and other payables with a carrying amount of \$130,000. The value of the Montana shares was based on the share price at the date of issuance of \$0.12 per share. The difference between the carrying amount of the financial liabilities extinguished and the consideration provided of \$26,000 was recognized in profit and loss and included in general & administrative expenses. This non-cash transaction has been excluded from the condensed interim consolidated statement of cash flows.
- c) On September 18, 2015, the Company completed an Arrangement Agreement whereby the Company acquired Gale Force Petroleum Inc (see also Note 6). 42,751,418 common shares were issued in the acquisition of Gale Force and 3,741,412 shares were issued to settle certain of Gale Force's outstanding payable amounts. As a condition of the Arrangement Agreement, the Company converted \$7,515,000 of its debt and the associated \$1,789,364 of interest payable into shares of the Company (see Note 10(c)).
- d) On October 20, 2015, the Company acquired certain land and seismic exploration and evaluation assets (see Note 8) in the State of Montana in exchange for 6,666,667 common shares valued at \$0.06 per share.

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C) Contributed surplus

The fair value of share options granted to employees, including key management personnel, as part of their remuneration is recognized as stock-based compensation with a corresponding increase in contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital.

	Amount \$
Balance, January 1, 2014	3,318,483
Stock-based compensation (Note 14)	755,994
Warrant expiry (Note 13(D))	4,761,078
Balance, December 31, 2014	8,835,555
Stock-based compensation (Note 14)	446,694
Fair value discount on promissory note (Note 10(f)), net of deferred tax of \$27,000	74,000
Business combination consideration (Note 6)	55,480
Warrant expiry (Note 13(D))	1,463,609
Balance, December 31, 2015	10,875,338

D) Warrants

	Number	Amount \$
Balance, January 1, 2014	55,212,894	6,224,687
Expiry of warrants	(36,662,894)	(4,761,078)
Balance, December 31, 2014	18,550,000	1,463,609
Expiry of warrants	(18,550,000)	(1,463,609)
Balance, December 31, 2015	-	-

All warrants expired unexercised on March 22, 2015.

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14. Stock-based compensation

The Company has implemented a long-term incentive plan that allows management to award stock options to eligible directors, officers, employees and contractors for up to a maximum of 10 percent of its issued and outstanding common shares at market price at the date of the grant. The outstanding options under this plan vest over three years and have a term of five years.

At December 31, 2015, the Company had the following outstanding stock options issued to directors and staff pursuant to the Company's incentive stock option plan:

	December 31, 2015		December 31, 2014	
	Number	Weighted Average Exercise price	Number	Weighted Average Exercise price
Outstanding, beginning of year	8,940,001	\$0.21	1,040,001	\$0.25
Granted	-	-	8,000,000	0.20
Granted as replacement options (Note 6)	3,394,500	0.13	-	-
Forfeited and expired	(2,150,456)	0.22	(100,000)	0.20
Exercised	-	-	-	-
Outstanding at end of year	10,184,045	\$0.18	8,940,001	\$0.21
Exercisable at end of year	8,015,844	\$0.17	3,673,326	\$0.21

The following table summarizes the expiry terms and exercise prices of the Company's outstanding stock options as of December 31, 2015:

Number of options	Exercise price	Weighted average remaining contractual life (years)	Expiry date	Number of options exercisable
285,000	\$0.25	0.53	July 13, 2016	285,000
6,300,000	0.20	3.52	July 8, 2019	4,199,986
204,545	0.20	3.56	July 22, 2019	136,358
1,906,500	0.13	0.72	September 16, 2016	1,906,500
1,488,000	0.13	3.88	November 17, 2019	1,488,000
10,184,045	\$0.18	2.97		8,015,844

During the year ended December 31, 2015, \$446,694 (2014 - \$755,994) in stock-based compensation cost was incurred.

On September 18, 2015, the Company issued stock options in exchange for Gale Force stock options held in respect of Gale Force shares as part of the Arrangement Agreement. The market-based options were measured using the Black-Scholes option pricing model, with the assumptions detailed in Note 6.

On July 8, 2014 and July 22, 2014 the Company issued 7,750,000 and 250,000 stock options respectively, with an exercise price of \$0.20 per common share. These options, which have a term of five years, vest as to one third upon issuance, one third on the first anniversary date and one third on the second anniversary date. The fair value of these stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

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Share price on grant date (\$)	0.20
Risk-free interest rate (%)	1.47
Expected volatility (%)	129.84
Expected life (years)	5.0
Expected dividend yield (%)	0.00
Expected forfeiture rate (%)	0.00
Fair value per option (\$)	0.17

15. Financing costs

Net finance expenses recognized in the consolidated statements of comprehensive loss are comprised of:

	For the year ended December 31	
	\$ 2015	\$ 2014
Interest expense	786,310	846,071
Other	26,702	-
Accretion of convertible debentures (Note 10(c))	2,344	43,956
Accretion of long-term promissory note (Note 10(f))	8,100	-
Accretion of carried working interest (Note 6)	(32,717)	-
Accretion of decommissioning liabilities (Note 12)	115,302	86,215
	906,041	976,242

16. Related party transactions

Balances and transactions between Montana and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below. Transactions with related parties are disclosed in Notes 7 and 10.

Compensation of key management personnel

The remuneration of executive directors and other members of key management personnel during the year were as follows:

	December 31, 2015 \$	December 31, 2014 \$
Short-term employee benefits	575,144	615,000
Stock-based compensation	366,300	593,556
	941,444	1,208,556

Total short-term employee benefits for all employees, contract employees, officers and directors was \$1,174,245 (2014 - \$1,288,656) for the year ended December 31, 2015. Total stock-based compensation for all employees, contract employees, officers and directors was \$446,694 (2014 - \$755,994) for the year ended December 31, 2015.

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17. Loss per share

	Net loss for the year \$	Weighted average number of shares	Per share amount \$
December 31, 2015			
Basic and diluted	(2,691,618)	143,204,948	(0.02)
 December 31, 2014			
Basic and diluted	(11,608,851)	95,275,926	(0.12)

18. Segmented Reporting

The Company earns income from two geographical regions and reports on this basis as follows:

For the year ended:	December 31, 2015			December 31, 2014		
	Canada \$	USA \$	Total \$	Canada \$	USA \$	Total \$
Revenues, net of royalties	214,097	285,622	499,719	411,700	596,462	1,008,162
Loss before tax	466,190	(3,184,808)	(2,718,618)	(6,415,086)	(5,205,340)	(11,620,426)
Total assets	702,737	7,219,461	7,922,198	1,242,188	5,840,759	7,082,947
Property, plant and equipment	21,187	56,862	78,049	28,736	1,046,925	1,075,661
Exploration and evaluation assets	-	5,310,865	5,310,865	-	4,324,050	4,324,050
Capital additions	-	602,601	602,601	112,177	2,222,737	2,334,914
Total liabilities	6,914,143	5,509,747	12,423,890	14,117,920	4,541,690	18,659,610

19. Commitments and contingencies

- a) The Company has an operating lease for office space in Calgary, Alberta which ends on September 30, 2016. The future payments are as follows:

	December 31, 2015 \$	December 31, 2014 \$
Less than 1 year	325,280	411,506
Later than 1 year and less than 5 years	-	308,629
	325,280	720,135

- b) Promissory notes in the amount of \$780,801 (Note 10(d)) were due and payable in 2013. Holders of these promissory notes have the right to pursue remedies available under the general security agreement associated with the promissory notes.

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- c) The Company signed a farm-in agreement with a utility located in the State of Montana and ratified by the Board of Directors on November 30th, 2015 whereby the Company becomes the strategic drilling partner of the large utility (Note 2(e)). The agreement covers access to approximately 315,000 acres, including several zones. As a condition of this agreement, the Company must drill 10 wells, of which no less than 6 will be gas wells, on the Farmin lands. The first well must be drilled on or before September 21, 2016, and the next 9 must be spudded within a year of that. There are no cash penalties for non-performance; however the Company must drill wells according the schedule in the agreement in order to preserve the future right to earn more lands.
- d) On January 15, 2014, Hammerhead Management Partners filed a Notice of Claim, under which they claimed ownership of an interest in the Pine Mills Properties, based on alleged unrecorded purchases of interests dating prior to the acquisition of Gale Force by Montana (Note 6). The Company refutes Hammerhead's claims, and will vigorously defend itself. Montana requested a hearing of a Motion to Compel Arbitration of the claim, which was granted in December, 2015. The arbitration will begin on or about April 18, 2016, following which the Company expects to bring the matter to as swift an end as practical. Management has assessed this Notice of Claim to be without merit. The estimated resolution and the amount of the settlement, if any, is subject to measurement uncertainty. Until the Notice of Claim is resolved, all net profits attributable to Montana's proportionate working interest shall be paid to an escrow agent, to be held and administered until settlement.

20. Supplemental cash flow information

Changes in non-cash working capital for the years ended December 31, 2015 and 2014 is comprised of:

	2015	2014
Trade and other receivables	\$ (37,692)	\$ 51,508
Prepaid expenses	(18,069)	146,640
Trade and other payables	1,172,329	1,465,550
Accrued interest	976,352	(781,070)
Acquired in business combination (Note 6)	(383,220)	-
Settlement of trade and other payables for common shares (Note 13(B)(b))	130,000	-
Foreign currency changes	(459,112)	(165,693)
Change in non-cash working capital	<u>\$ 1,380,588</u>	<u>\$ 716,935</u>

Allocated as follows:

Operating activities	\$ 1,420,385	\$ 295,857
Investing activities	(39,797)	421,078
Financing activities	-	-
Change in non-cash working capital	<u>\$ 1,380,588</u>	<u>\$ 716,935</u>

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21. Financial instruments and fair value measurements

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

Financial instruments of the Company include cash, short-term investments, trade and other receivables, deposits, carried working interest, trade and other payables, demand facility, mezzanine facility, advances from shareholders, short term promissory notes and convertible debentures. As of December 31, 2015 the carrying amounts reported on the statement of financial position approximated the estimated fair values of financial instruments (excluding convertible debentures and carried working interest) due to their short terms to maturity.

The estimated fair value of the convertible debentures was determined based on prices secured from market data and other observable inputs. The estimated fair value of the carried working interest approximates its fair value as it is discounted at market rates.

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The following table summarizes the Company's financial instruments at December 31, 2015 and 2014:

	Level in fair value hierarchy	December 31, 2015		December 31, 2014	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial Assets:					
<i>Fair value through profit and loss:</i>					
Cash	Level 1	\$ 993,194	\$ 993,194	\$ 280,900	\$ 280,900
Short-term investments	Level 1	\$ -	\$ -	\$ 777,778	\$ 777,778
<i>Loans and receivables:</i>					
Trade and other receivables	Level 2	\$ 431,601	\$ 431,601	\$ 393,909	\$ 393,909
Deposits	Level 2	210,077	210,077	174,689	174,689
Carried working interest	Level 3	824,383	824,383	-	-
Financial Liabilities:					
<i>Financial liabilities at amortized cost:</i>					
Trade and other payables	Level 2	\$ 6,663,331	\$ 6,663,331	\$ 5,491,002	\$ 5,491,002
Demand facility	Level 2	-	-	400,000	400,000
Mezzanine facility	Level 2	-	-	1,065,000	1,065,000
Advances from shareholders	Level 2	1,086,712	1,086,712	2,800,000	2,800,000
Convertible debentures	Level 3	-	-	3,247,656	3,247,656
Current promissory notes	Level 2	780,801	780,801	780,801	780,801
Non-current promissory notes	Level 3	170,400	170,400	-	-

The fair value of convertible debentures and long term promissory notes is determined using a Level 3 valuation model and inputs include interest rates for similar non-convertible debt, and consideration of term to maturity.

The fair value of the carried working interest takes into account the credit risk of the counter party and estimates of market interest rates on unsecured loans.

In testing for impairment of property, plant and equipment, a Level 3 valuation model is used to determine the recoverable amount of a CGU. The fair value less costs of disposal model used contains inputs that are not readily observable or corroborated, such as forecasted cash flows over the estimated life of reserves.

The Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the years ended December 31, 2015 and 2014 there were no transfers between levels 1, 2 or 3.

22. Capital management

The Company's objective when managing capital is to maintain a flexible capital structure enabling it to execute on its capital expenditure program. In the management of capital, the Company includes net debt as defined below. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, sell assets, and adjust its capital spending to manage its current and projected debt levels. 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 petroleum and natural gas assets. The Company's share capital is not subject to external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

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Management reviews its capital management approach on an ongoing basis. Additional information regarding capital management is disclosed in Note 2. There were no material changes to this approach during the year ended December 31, 2015.

Net debt

	December 31, 2015	December 31, 2014
	\$	\$
Demand facility	-	400,000
Mezzanine facility	-	1,065,000
Advances from shareholders	1,086,712	2,800,000
Convertible debentures	-	3,247,656
Promissory notes (current)	780,801	780,801
Promissory notes (long term)	170,400	-
Current portion of decommissioning liabilities	110,671	-
Working capital deficiency ¹	5,164,507	3,982,455
Net debt²	7,313,091	12,275,912

¹ Working capital deficiency (surplus) is a non-GAAP measure that includes cash, short-term investments, trade and other receivables, prepaid expenses and deposits and trade and other payables.

² Net debt is a non-GAAP measure. Net debt is defined as the total of demand facility, mezzanine facility, advances from shareholders, current and long term promissory notes, convertible debentures, the current portion of decommissioning liabilities and working capital deficiency (surplus).

Management has assessed the net debt position of the Company at December 31, 2015 and December 31, 2014 and determined that net debt reduction is required to allow the Company to implement its objective of creating shareholder value. The Company is actively pursuing various sources of potential financing. See also Note 2.

23. Risk Management

Financial risks

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations and interest rates). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with reputable purchasers. The Company historically has not experienced any material collection issues with its petroleum and natural gas marketers. Joint operation receivables are typically collected within one to three months of the joint operation bill being issued to the partner.

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The maximum exposure to credit risk as at:

	December 31, 2015	December 31, 2014
	(\$)	(\$)
Trade and other receivables	431,601	393,909
Carried working interest (Note 6)	824,383	-
Deposits	210,077	174,689
Cash	993,194	280,900
	2,459,255	849,498

The face value of the carried working interest is \$1,000,000 USD which is subject to credit risk. Management is in discussions with the carrying partner regarding the Notice of Claim as described in Note 19(d) and the valuation of the carried working interest receivable.

The aging analysis of trade and other receivables is as follows:

	Total	current	31-60	61-90	>91
	\$	\$	days	days	days
			\$	\$	\$
December 31, 2015	431,601	192,275	8,426	4,921	225,979
December 31, 2014	393,909	134,854	42,593	36,512	179,950

Substantially all of the Company's trade and other receivables are due from purchasers of Montana's petroleum and natural gas production, joint operation partners and government agencies and are subject to normal credit risk. The Company markets its petroleum and natural gas sales to several marketers and receives payment directly from the marketers of such product sales, on the properties where the Company is the legal operator of the property. The Company has not experienced any collection issues with these marketers. Receivables from purchasers of Montana's petroleum and natural gas sales are collected on the 25th day of the month following production. December 2015 revenue accounted for in trade and other receivables was approximately \$46,000.

The Company attempts to reduce the risk from joint operation receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and issuing cash calls to partners for capital projects before they commence. The Company does not typically obtain collateral or letters of credit from purchasers of the Company's petroleum and natural gas production or joint operation partners; however the Company does have the ability to withhold production from joint operation partners in the event of non-payment. The receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint operators; as disagreements occasionally arise that increase the potential for non-collection. Amounts recorded from joint operation partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company will record balances due from its joint operation partners based on costs incurred and its interpretation of allowable expenditures. Any adjustment required as a result of joint operation audits are recorded in the period of settlement with joint operation partners. The Company has an allowance for doubtful accounts for the year ended December 31, 2015 of \$72,053 (2014 - \$nil). When determining whether past due accounts are collectible, the Company factors in the past credit history of the counterparties. In determining the recoverability of a trade or other receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. Even though there are receivable balances greater than 91 days, there are corresponding accounts payable balances which offset certain past due trade and other receivable balances. These past due accounts, net of allowance for doubtful accounts, are considered collectible.

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The Company's deposits are primarily due from provincial and US state governments and are viewed by management as having minimal credit risk.

The Company manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash balances. Liquidity requirements are managed based on expected cash flow to ensure that there is capital to meet short term and long term obligations. As disclosed in Note 2, the Company is currently facing liquidity issues and its ability to continue as a going concern is dependent on many factors.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2015 and December 31, 2014 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
As at December 31, 2015					
	\$	\$	\$	\$	\$
Trade and other payables	6,663,331	-	-	-	6,663,331
Current promissory note ⁽¹⁾	780,801	-	-	-	780,801
Advances from shareholders	1,086,712	-	-	-	1,086,712
Non-current promissory note	-	-	263,300	-	263,300
	8,530,844	-	263,300	-	8,794,144
As at December 31, 2014					
	\$	\$	\$	\$	\$
Trade and other payables	5,491,002	-	-	-	5,491,002
Demand facility ⁽¹⁾	400,000	-	-	-	400,000
Mezzanine facility ⁽¹⁾	1,065,000	-	-	-	1,065,000
Advances from shareholders	2,800,000	-	-	-	2,800,000
Convertible debentures	3,247,656	-	-	-	3,247,656
Promissory note ⁽¹⁾	780,801	-	-	-	780,801
	13,784,459	-	-	-	13,784,459

(1) The terms of the promissory notes required that the demand and mezzanine facilities be extinguished prior to repayment of the promissory notes. The demand facility and mezzanine facility were settled in 2015.

The Company expects to satisfy obligations under trade and other payables and other indebtedness through cash flows from operations and new financing. The Company's capital programs have been primarily funded by cash obtained through operations and advances from shareholders. The Company requires sufficient cash to fund capital programs necessary to maintain or increase production and develop reserves and to potentially acquire strategic assets. The Company will require additional equity or debt financing to enable it to generate sufficient cash flow from its petroleum and natural gas properties, attain profitable operations and meet its financial obligations when due (See also Note 2). The Company is also subject to future commitments as disclosed in Note 19 and current portion of decommissioning liabilities as disclosed in Note 12.

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Additional information regarding liquidity risk is disclosed in Note 2.

Market risk

Market risk is the risk that changes in commodity prices, foreign exchange rates and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may utilize both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the risk management guidelines that have been authorized by the Board of Directors.

Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company is exposed to foreign currency fluctuations on transactions conducted in foreign currencies other than the functional currency and in the carrying value of the Company's subsidiaries, Montana Exploration and Land Inc., GFP Texas, Inc. and GFP Central USA Inc., upon translation to the Canadian presentation currency. The majority of the Company's revenues and expenses are translated and denominated in USD. As at December 31 2015, if the CDN dollar had increased or decreased one per cent against the USD with all other variables held constant, the effect on net loss for the period would be insignificant, while the effect on comprehensive income for the year would increase or decrease approximately \$27,000 (2014 – \$16,000), respectively.

For the Company's Canadian operations, North American petroleum and natural gas prices are based upon USD denominated commodity prices. As a result, although receivables are denominated in CDN, the price received by Canadian producers is affected by the CDN/USD foreign exchange rate that may fluctuate over time. As of December 31, 2015, the Company had no forward exchange rate contracts in place.

As at December 31, 2015 and December 31, 2014, the following financial instrument balances are denominated in USD:

	December 31, 2015	December 31, 2014
	USD (\$)	USD (\$)
Cash	395,557	75,484
Trade and other receivables	125,898	178,779
Deposits	151,789	150,581
Promissory notes and advances from shareholders	(985,526)	-
Trade and other payables	(2,354,675)	(2,051,938)

Commodity price risk

Commodity price risk is the risk that the fair value of future funds flow will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the CDN and USD, as outlined above, but also world economic events that dictate the levels of supply and demand. Montana's management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. Under the Company's risk management policy, financial derivatives are not to be used for speculative purposes. There were no commodity price financial derivatives outstanding as at December 31, 2015 or December 31, 2014.

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Interest rate risk

The Company is exposed to interest rate risk to the extent that the promissory notes are at a floating rate of interest. The Company does not have any financial or interest rate contracts in place as of December 31, 2015 or December 31, 2014. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As a result, the Company is exposed to similar fluctuations in its net earnings. The Company's assessment of the sensitivity of net earnings to interest rate changes while holding all other variables constant and utilizing a one percent change in interest rates is a reasonable measure of volatility. For the year ended December 31, 2015, the increase or decrease in net earnings, on an after-tax basis, for a one percent change in interest rates on the floating rate debt amounts to approximately \$7,800 (2014 - \$7,800).

24. Subsequent Events

- a) On April 7, 2016 the Company issued a \$100,000 USD promissory note bearing interest at a rate of 10% per annum to a related party. The note matures on April 7, 2019.
- b) In the Province of Alberta, the AER has issued an abandonment order to the Company requesting the abandonment of a well located in Alberta. The Company is in the process of addressing the matter responsibly in a timely and expedient matter.
- c) In the State of Montana, the Company received an order to abandon a well from the State regulator. The Company is in the process of addressing the matter responsibly in a timely and expedient matter.

Board of Directors

CHARLES V. SELBY, B.SC. (HONS.) J.D., P.ENG.

Mr. Selby has more than 30 years of involvement in all aspects of the oil and gas industry. Mr. Selby was employed with Chevron Standard in Alberta and in the Kingdom of Saudi Arabia, and practised law with two major legal firms in Calgary for ten years prior to pursuing independent professional and investment activities in August 1994 as President of Selby Professional Corporation. Mr. Selby was formerly Vice President of the Pengrowth Corporation. Mr. Selby serves on the boards of several public and private companies related to the oil and gas industry and the provision of technology to that industry.

DONALD E. FOULKES, B.SC., P.GEOL.

Mr. Foulkes has 44 years of oil and gas experience with private and public companies in Canada, the United States and internationally. Prior to joining AltaCanada, Mr. Foulkes was Chairman and Chief Executive Officer of Causeway Energy Corp. from 1998 until its sale to Pan-Canadian in August of 2001.

MICHAEL J. HIBBERD, BA, MBA, LLB. *

Mr. Hibberd has extensive capital markets and mergers and acquisitions experience. Mr. Hibberd serves on a number of public company boards and acts as an advisor to a number of Calgary based companies with North American and international oil and gas operations.

JAMES W. COLLINS *

Mr. Collins is an independent businessman and corporate director. He is Chairman of Rioco Corp. Real Estate Services, LLC, McAllen, Texas, a commercial brokerage, management and investment real estate Corporation. Mr. Collins is also President of Mayfair Properties, LLC. McAllen, Texas, involved in real estate, oil and gas, agri-business and investments. Prior to this he was Corporate Secretary and Assistant Vice President, Sunshine Mining Corporation, Dallas, Texas, a Corporation with interests in silver, mining, oil and gas and manufacturing. Mr. Collins serves on the Board of Directors of several Corporations and Institutions, and was previously on the Board of Bushmills Energy Corp. He achieved an MBA in Finance, Accounting and Real Estate from Southern Methodist University, Dallas, Texas.

JULIAN McINTYRE

Mr. McIntyre is the founder and principal of McIntyre Partners and former founder and principal of Gateway Communications Group.

ALLAN BEZANSON *

Having served as Interim President of Range Resources since 2012, Mr. Bezanson has been in the energy industry for a number of years. He has been Managing Director of Nowsco BV, President and Partner of Oballan Capital and Osprey Capital Partners. He has also served on the Boards of Directors of Bluewave Energy, Hawkstone Energy Corp, Brilliant Resources Inc, iLOOKABOUT Corp. and Longford Energy Inc

* Member of Audit Committee

Montana Exploration Corp.

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CORPORATE OFFICERS

Charles V. Selby
Executive Chairman and Chief Executive Officer

Donald E. Foulkes
President and interim Chief Financial Officer

Donald L. Jackson
Executive Vice-President and Chief Operating Officer

Michael P. McLellan
Interim Vice-President of Corporate Finance

SENIOR TEAM MEMBERS

Dale Stoodley, MT Operations Manager

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

AUDITORS

Collins Barrow Calgary LLP
Calgary, Alberta

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Inquiries regarding changes of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Computershare Trust Company of Canada
Attention: Stock Transfer Department
630, 530-8th Avenue SW
Calgary, Alberta T2P 3S8
Tel: 403.267.6555
Fax: 403.267.6529

STOCK EXCHANGE

The TSX Venture Exchange, Symbol: MTZ

VOLUME REPORTING

Where volumes are reported in barrels of oil equivalent, gas is converted to oil at six thousand cubic feet per barrel, unless stated otherwise.

FINANCIAL REPORTING

All amounts are in Canadian dollars, unless otherwise stated. Montana Exploration's fiscal year-end is December 31.