

KNOL RESOURCES CORP.

Consolidated Financial Statements

For the year ended December 31, 2014



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Knol Resources Corp.:

We have audited the accompanying consolidated financial statements of Knol Resources Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's 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 auditor's 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 Knol Resources Corp. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "DELOITTE LLP". The letters are slightly slanted and connected, giving it a personal, cursive-like appearance.

Chartered Accountants
April 21, 2015
Calgary, Alberta

KNOL RESOURCES CORP.
Consolidated Statements of Financial Position
In Canadian dollars

	December 31 2014	December 31 2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 4)	5,053,231	786,473
Accounts receivable	16,530	5,840
Prepaid expenses	3,168	1,596
Total current assets	5,072,929	793,909
Restricted cash (note 4)	49,967	49,967
Total assets	5,122,896	843,876
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	43,500	87,114
Liabilities associated with assets held for sale (note 5)	50,000	50,000
Asset retirement obligation (note 6)	200,000	-
Total liabilities	293,500	137,114
Shareholders' equity		
Share capital (note 7a)	75,191,873	70,882,574
Equity reserves (note 7b)	22,947,225	22,509,921
Deficit	(93,309,702)	(92,685,733)
Total shareholders' equity	4,829,396	706,762
Total liabilities and shareholders' equity	5,122,896	843,876
Basis of presentation (note 3b)		

On behalf of the Board of Directors:

<u>"Bryce Rhodes"</u>	Director	<u>"Daryl Clark"</u>	Director
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See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.
Consolidated Statements of Loss and Comprehensive Loss
In Canadian dollars

	Years Ended December 31	
	2014	2013
	\$	\$
Expenses		
Environmental reclamation (note 6)	191,300	-
Consulting fees (note 9)	159,477	114,023
Share-based compensation (note 7b)	146,279	-
Legal and audit services	79,144	130,634
Investor relations and exchange listing and filing fees	34,117	84,477
Land leases	30,117	-
Office expenses	24,903	42,937
Insurance	11,638	23,372
Salaries and benefits	-	6,715
Net loss before interest	(676,975)	(402,158)
Interest income	53,006	11,538
Net loss before income taxes	(623,969)	(390,620)
Income taxes (note 10)	-	-
Net loss and comprehensive loss	(623,969)	(390,620)
Basic and diluted loss per share (note 7c)	(0.01)	(0.07)

See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.
Consolidated Statements of Changes in Shareholders' Equity
In Canadian dollars

	Common Shares	Equity Reserves			Deficit	Total
		Expired Options and Warrants	Outstanding Options and Warrants	Equity Reserves Subtotal		
	\$	\$	\$	\$	\$	\$
January 1, 2013	70,882,574	22,509,921	-	22,509,921	(92,295,113)	1,097,382
Net loss and comprehensive loss	-	-	-	-	(390,620)	(390,620)
December 31, 2013	70,882,574	22,509,921	-	22,509,921	(92,685,733)	706,762
Net loss and comprehensive loss	-	-	-	-	(623,969)	(623,969)
Private placement, net of issuance costs (note 7)	4,309,299	-	291,025	291,025	-	4,600,324
Share-based compensation	-	-	146,279	146,279	-	146,279
December 31, 2014	75,191,873	22,509,921	437,304	22,947,225	(93,309,702)	4,829,396

See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.
Consolidated Statements of Cash Flows
In Canadian dollars

	Years Ended December 31	
	2014	2013
	\$	\$
Cash and cash equivalents (used in) provided by:		
Operating activities		
Net loss for the period	(623,976)	(390,620)
Add back:		
Share-based compensation	146,279	-
Less:		
Interest income	(53,006)	(11,538)
Add back (less) changes in non-cash working capital		
Accounts receivable and prepaid expenses	(12,262)	55,667
Accounts payable and accrued liabilities	(43,607)	(857,777)
Asset retirement obligation	200,000	-
Total cash and cash equivalents used in operating activities	(386,572)	(1,204,268)
Investing activities		
Interest received	53,006	11,538
Total cash and cash equivalents provided by investing activities	53,006	11,538
Financing activities		
Proceeds from private placement of common shares, net of cash issuance costs ¹	4,600,324	-
Total cash and cash equivalents provided by financing activities	4,600,324	-
Increase (decrease) in cash and cash equivalents	4,266,758	(1,192,730)
Cash and cash equivalents beginning of the period	786,473	1,979,203
Cash and cash equivalents end of the period	5,053,231	786,473

Non-cash financing activities:

1. In addition to cash issuance costs, warrants with a \$291,025 fair value were issued as finders' fees in the year ended December 31, 2014, and have been reported as a reduction in share capital.

See accompanying notes to the consolidated financial statements.

KNOL RESOURCES CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

1. NATURE OF OPERATIONS

Knol Resources Corp. (the “Corporation”) seeks opportunities to acquire or participate in the exploration and development of petroleum and natural gas (“P&NG”) assets in Western Canada. As of the date these consolidated financial statements were authorized by the Corporation’s Board of Directors, the Corporation has no significant operating assets.

The Corporation is incorporated in Alberta, Canada, and its principal place of business is Suite 1703, Three Bentall Centre, 595 Burrard Street, Vancouver, BC, V7X 1J1.

Commencing April 17, 2014, the Corporation’s common shares trade on the NEX board of the TSX-Venture Exchange under the symbol “NOL.H”. Prior to April 17, 2014, the Corporation’s common shares traded on the TSX-Venture Exchange under the symbol “NOL”.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements, including comparative periods, have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements were approved by the Corporation’s Board of Directors on April 21, 2015.

3. ACCOUNTING POLICIES

a) Basis of consolidation

In addition to the Corporation’s results, these consolidated financial statements include the balances and results of entities over which the Corporation exercises control. Control is achieved where the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These consolidated financial statements include the financial results of all controlled entities from the date control commences until the date that control ceases. All transactions between consolidated entities are eliminated in the consolidation of reported amounts.

The consolidated statement of financial position as at December 31, 2014 includes the Corporation’s accounts and those of its wholly-owned subsidiaries:

- CPH-Sarcee Corporation
- CPH-Investment Corporation

Subsequent to December 31, 2014, both CPH-Sarcee Corporation and CPH-Investment Corporation were dissolved.

KNOL RESOURCES CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for the assets and related liabilities classified as held for sale, which are measured at fair value, and financial instruments which are described in Note 3c.

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation and all its consolidated subsidiaries.

On March 8, 2013, the Corporation consolidated the number of its issued and outstanding common shares on a 10-for-1 basis. All information presented on a per share basis in these condensed consolidated interim financial statements, including comparative information, has been presented on a post-consolidation basis as if the consolidation was effective starting January 1, 2013.

c) Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities" as follows:

i) Financial assets

Financial assets comprise cash, accounts receivable and restricted cash. Cash comprises deposits held at financial institutions, and is classified as fair value through profit and loss and are measured at fair value. Accounts receivable are classified as loans and receivables and are recorded at amortized cost less any impairment. Restricted cash includes cash that has been designated for various operational or environmental reclamation purposes, and is classified as fair value through profit and loss and measured at fair value.

ii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities, which are classified as financial liabilities measured at amortized cost using effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as financing expense.

d) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

KNOL RESOURCES CORP.
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Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Corporation's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Fair value is based on recent purchase offers, market transactions for similar assets, or appropriate valuation models.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in the consolidated statement of loss and comprehensive loss. Property, plant and equipment and intangible assets are no longer depreciated once classified as held for sale, but interest and other expenses attributable to the liabilities of a disposal group or asset held for sale are recognized.

e) Asset retirement obligation

The Corporation recognizes an asset retirement obligation, in the period a well or related asset is drilled, constructed or acquired, for the expected costs to abandon wells and related facilities, remove equipment from leased acreage and return such land to its original condition. The asset retirement obligation is estimated at the present value of the estimated expected future cash outflows, discounted using a risk-free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment and a corresponding liability is recognized.

Subsequent to initial recognition, the obligation is reviewed regularly by management, based upon current regulations, costs, technologies and industry standards, as well as to changes in the risk-free rate. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. The accretion of the obligation is recorded as a financing cost in the consolidated statement of loss and comprehensive loss, and actual abandonment and reclamation expenditures are charged to the accumulated obligation as incurred and obligations related to properties disposed are removed.

The amount of the capitalized retirement obligation is depleted and depreciated on the same basis as the other capitalized property, plant and equipment.

f) Stock-based compensation

Stock options granted by the Corporation to directors, officers, employees and consultants are measured at their fair values. Fair values of stock options issued are determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options; a corresponding increase is recorded to contributed surplus.

When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. At the end of each reporting period, the Corporation revises its estimate of the number of options expected to vest.

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g) Share purchase warrants

Warrants with the right to acquire common shares in the Corporation are typically issued through the Corporation's debt or equity financing activities. The fair values of these warrants are determined on their issuance date, using the Black-Scholes option pricing model, and are recorded as both a separate component of shareholders' equity and as a reduction in the values of related debt or share capital.

When share purchase warrants are exercised, the cash proceeds along with the amount previously recorded as a separate component of shareholders' equity are recorded as share capital. When share purchase warrants expire, the amount previously recorded as a separate component of shareholders' equity is reclassified to contributed surplus.

h) Share issue costs

Costs incurred to issue shares, which may include cash or equity-settled payments, are accounted for as a reduction in share capital.

i) Income taxes

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

j) Per share amounts

Basic (loss) earnings per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options are used to purchase common shares of the

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Corporation at their average market price for the period. In periods that the Corporation reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

k) Judgments, estimates and measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make judgments, significant estimations or where measurements are uncertain are as follows:

i. Assets and liabilities held for sale

The measurement of assets and liabilities held for sale requires management to use judgment to estimate their fair values. Management bases these fair values on factors such as prices discussed during sale negotiations and estimates for discounted present values of cash flows related to these assets and liabilities.

An inability to successfully negotiate a sale of these assets and liabilities, or changes to the amount or timing of related cash flows could adversely affect their fair values.

ii. Contingencies

Certain liabilities and related losses may arise based on the resolution of future events, such as the outcome of legal proceedings initiated by or against the Corporation. Whether or not such liabilities and losses are recognized in the Corporation's consolidated financial statements is dependent on management's expectations for the likely outcome of these future events and the level of certainty in measuring these amounts.

When determining the likelihood and amount of contingent losses, management consults with legal and other advisors and assesses its own intentions. Contingencies that are not resolved as anticipated could result in future losses being recognized by the Corporation.

iii. Asset retirement obligation

The asset retirement obligation reported by the Corporation is based on estimates for the amount and timing of future cash flows for property reclamation. Where possible, the Corporation's management uses quotes from reclamation service providers in establishing the amount of reclamation expenses and estimates for the timing of such expenses is based on related property productivity and the requirements of environmental regulators. The amount or timing of actual reclamation expenditures could differ from those used to determine the asset retirement obligation provision, and could result in an increase or decrease in related expenses.

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iv. Income taxes

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Corporation to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Corporation will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Corporation's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

v. Stock-based compensation

The Corporation uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires management to estimate the volatility of the Corporation's future share price, the risk-free interest rate, expected lives of stock options and future dividend yields and the number options granted which will be forfeited before vesting. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

l) New and amended IFRS adopted by the Corporation

The Corporation has applied the following new IFRS amendment starting January 1, 2014:

i. IAS 32, Financial Instruments: Presentation

IAS 32 was amended to clarify requirements for offsetting financial assets and financial liabilities. The Corporation will adopted this amended policy on January 1, 2014, but it did not have a significant impact on the Corporation's consolidated financial statements.

ii. IFRIC 21, Levies

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, other than those levies within the scope of other standards. The Company has applied IFRIC 21 on a retrospective basis in compliance with the transitional requirements. No adjustments to the Company's financial statements were made as a result of the implementation of IFRIC 21.

iii. IFRS 2, Share-based Payment

IFRS 2 is amended to clarify the definition of vesting conditions. This accounting policy applies to share-based payment transactions for which the grant date is on or after July 1, 2014. No adjustments to the Company's financial statements were made as a result of the implementation of IFRS 2.

m) Future changes in accounting standards

The following are new and revised accounting pronouncements that have been issued, but are not yet effective for the year beginning January 1, 2014:

i. IFRS 3, Business Combinations

IFRS 3 is amended to provide clarification related to (i) contingent consideration in a business combination and (ii) scope exception for joint arrangements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

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ii. IFRS 8, Operating Segments

IFRS 8 is amended to require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iii. IFRS 9, Financial Instruments

The IASB intends to replace IAS 39 – “*Financial Instruments: Recognition and Measurement*” in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

iv. IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

IAS 16 is amended to classify how gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. These amendments are effective for fiscal years beginning on or after July 1, 2014.

v. IAS 24, Related Party Transactions

IAS 24 is amended to (i) revise definition of “related party” to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

vi. IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

Management has determined that the application of these pronouncements is not expected to have a significant impact on the Corporation's financial statements.

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4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

As at December 31, 2014, the Corporation held cash in an operating account with a Schedule 1 Chartered Canadian bank and cash equivalents in the form of a term deposit with another Canadian financial institution with an R-1(low) credit rating from DBRS. As at December 31, 2014, the term deposit can be withdrawn on demand, and earns an interest rate of 1.74%. A breakdown of the Corporation's cash and cash equivalents is as follows:

	December 31, 2014	December 31, 2013
	\$	\$
Cash	415,063	786,473
Cash equivalents	4,638,168	-
Total	5,053,231	786,473

Interest earned on the Corporation's cash and cash equivalents for the year ended December 31, 2014 was \$53,006 (2013 - \$11,538).

As at December 31, 2014, the Corporation held \$49,967 (December 31, 2013 - \$49,967) in cash restricted as security for a letter of credit held with a government authority for environmental reclamation.

5. LIABILITIES CLASSIFIED AS HELD FOR SALE

As at December 31, 2014 and 2013, the Corporation had an insignificant number of oil and gas interests, which it is actively seeking to sell. The carrying value of these assets has been written-off to \$nil for all periods presented, and the carrying value of related liabilities is \$50,000, reflecting management's estimate for the costs of disposal.

6. ASSET RETIREMENT OBLIGATION

In 2010, the Corporation assigned its operating interest in a certain gas property, including the related reclamation liability (the "Assignment"), to an arm's length party (the "Counterparty"). To bring the Assignment into force, the Counterparty was required to establish residency in the Province of Alberta, which the Counterparty failed to do, resulting in the Corporation remaining on record as the operator of the property and being responsible for any reclamation.

In 2012, the Corporation initiated a lawsuit against the Counterparty to bring into force the Assignment. As of December 31, 2013, legal proceedings were still on-going and, as the Corporation expected the terms of the Assignment would be enforced, no provision for environmental reclamation was reported.

During 2014, the Counterparty's ability to continue as a going concern became doubtful. Through an out-of-court settlement, the Corporation terminated the Assignment, receiving a breakage fee of \$10,000, and assumed the asset retirement obligation. The asset retirement obligation is based on a preliminary reclamation quote of \$200,000, and, as no value has been attributed to the related asset, the Corporation recorded an expense of \$190,000, net of the \$10,000 receivable from the Counterparty.

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The Corporation anticipates undertaking the reclamation work in the next twelve months. Owing to the short timeline there is no inflationary adjustment to the present value of the quote or the application of a discount factor. The asset retirement obligation reported as at December 31, 2014 is based on the Corporation's best estimates for the scope of work required and costs thereof. Should the expected scope of work change or actual costs differ from those estimated, additional reclamation expenses may be incurred, or a reversal of current expenses may be reported in future periods.

7. SHAREHOLDERS' EQUITY

a) Share capital – common and preferred shares

Authorized

Unlimited number of common voting shares with no par value.
Unlimited number of preferred shares with no par value.

Common and preferred shares issued and outstanding

i. Share consolidation

On March 8, 2013, the Corporation consolidated its common shares on a 10-for-1 basis. Including the cancellation of partial shares that resulted, the effect of this consolidation was a reduction in the number of common shares issued and outstanding of 51,268,348.

ii. Private placement

On April 11, 2014, the Corporation issued 47,000,000 units by way of a private placement (the "Units"). Each Unit was sold at a price of \$0.10 and comprised one common share and one common share purchase warrant exercisable for an additional common share at an exercise price of \$0.20, expiring April 11, 2019 or earlier if an acceleration clause is invoked (see note 7b.ii). On April 15, 2014, the Corporation closed a second tranche and issued an additional 3,000,000 Units.

The \$0.10 fair value of the Units was bifurcated between the common share and warrant components on an incremental basis, with the value being attributed first to the common shares to the fair market value of the shares with any excess in the Unit price over the fair market value of common shares being attributed to the warrants. Consequently, the entire value was attributed to the common shares and \$nil to the warrants.

The Corporation incurred \$690,701 in issuance costs, which has been presented as a reduction in share capital. These issuance costs include \$399,676 in cash finders' fees and other transaction costs, as well as compensatory warrants with a fair value of \$291,025 that were issued to finders. Of these costs, \$257,064 in cash fees and warrants with a fair value of \$242,626 were issued to entities related to a significant shareholder of the Corporation for finders' services.

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Changes to the Corporation's share capital are summarized as follows:

	Number of Common Shares	Assigned Value
		\$
Outstanding, December 31, 2012	56,964,818	70,882,574
Effect of 10-for-1 share consolidation	(51,268,348)	-
Outstanding, December 31, 2013	5,696,470	70,882,574
Private placement, net of transaction costs	50,000,000	4,309,299
December 31, 2014	55,696,470	75,191,873

b) Equity reserves - stock options and warrants

i. Stock options

Pursuant to the Corporation's stock option plan, the aggregate number of shares that may be reserved for issuance under the plan shall not exceed 10% of the Corporation's issued and outstanding common shares. The number of options granted, as well as their vesting terms, contractual lives and exercise prices are at the discretion of the Board of Directors, provided that the exercise price is not less than the market price of the common shares on the grant date.

During the year ended December 31, 2014, the Corporation granted 1,575,000 stock options to directors, officers and a consultant to the Corporation. The stock options, all of which vested on granting, have an exercise price of \$0.10 and expire May 21, 2019. The fair value for these options is \$146,279, which has been recorded as a share-based compensation expense. The fair value was determined using the Black-Scholes option-pricing model using the following inputs:

Input	Value
Exercise price	\$0.10
Market price of common shares on grant date	\$0.10
Volatility	159.75%
Risk-free rate	1.56%
Expected life	5 years
Dividend yield	0.00%

Changes to stock options during the years ended December 31, 2014 and 2013 are as follows:

	Number of Options	Assigned Value	Weighted Average Exercise Price
		\$	\$
Outstanding, December 31, 2013 and 2012	-	-	-
Options granted	1,575,000	146,279	0.10
December 31, 2014	1,575,000	146,279	0.10

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Stock options outstanding and exercisable as at December 31, 2014 are summarized as follows:

Exercise price	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Number of Exercisable Options
\$		Years	
0.10	1,575,000	4.4	1,575,000

ii. Warrants

As a result of private placement of Units, comprising one common share and one share purchase warrant, issued on April 11, 2014 and April 15, 2014, the Corporation issued 50,000,000 share purchase warrants in the year ended December 31, 2014 (the “Unit Warrants”). The Unit Warrants are exercisable for common shares in the Corporation at an exercise price of \$0.20 and expire April 11, 2019, unless the closing price and the volume-weighted average price of the Corporation’s shares are both greater than \$0.40 for a period of 10 consecutive trading days. In this event, the Corporation may, at its sole discretion, issue notice of an accelerated expiration of the Unit Warrants, upon which the Unit Warrants will expire 30 days following the issuance of such notice (“Acceleration Clause”). No fair value is attributed to the Unit Warrants, as the entire value of the Units is attributed to the common share component.

In connection with the private placement of Units, the Corporation issued 2,570,600 compensatory warrants to investee finders during the year ended December 31, 2014 (the “Finders’ Warrants”). Each Finders’ Warrant is exercisable for one common share in the Corporation at an exercise price of \$0.10 and expires on April 11, 2016. The \$291,025 fair value of the Finders’ Warrants was recorded as a reduction to share capital and was determined using the Black-Scholes option-pricing model using the following input values:

Input	Value
Exercise price	\$0.10
Market price of common shares on grant date	\$0.12
Volatility	338.00%
Risk-free rate	1.04%
Expected life	2 years
Dividend yield	0.00%

Changes to warrants during the years ended December 31, 2014 and 2013 are as follows:

	Number of Warrants	Assigned Value	Weighted Average Exercise Price
		\$	\$
Outstanding, December 31, 2013 and 2012	-	-	-
Unit Warrants issued	50,000,000	-	0.20
Finders’ Warrants issued	2,570,600	291,025	0.10
December 31, 2014	52,570,600	291,025	0.20

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Warrants outstanding and exercisable as at December 31, 2014 are summarized as follows:

Exercise price	Number of Warrants Outstanding	Weighted Average Remaining Contractual Life Years
\$		
0.10	2,570,600	1.3
0.20	50,000,000	4.3*
0.20	52,570,600	4.2

* Assuming the Acceleration Clause is not invoked.

c) Per share amounts

Basic and diluted loss per share for the years ended December 31, 2014 and 2013 are calculated as follows:

	Year Ended December 31	
\$ - unless otherwise stated	2014	2013
Numerator		
Net loss and comprehensive loss	(623,969)	(390,620)
Denominator		
Basic and diluted weighted average number of shares outstanding ¹	41,827,977	5,696,470
Basic and diluted loss per share	(0.01)	(0.07)

¹ The effect of the Corporation's 10-for-1 share consolidation on March 8, 2013 has been applied retrospectively to January 1, 2013 in the determination of basic and diluted weighted average number of shares outstanding.

The calculation of diluted loss per share excludes the impact from the potential exercise of stock options and warrants as their inclusion is anti-dilutive in periods in which a net loss is incurred.

8. COMMITMENTS & CONTINGENCIES

Under the terms of certain agreements and the by-laws of the Corporation, the Corporation indemnifies individuals who have acted at the request of the Corporation to be a director and/or officer to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. As at or subsequent to the end of the reporting period, the Corporation is unaware of any claims or actions that would materially affect its reported financial position or results from operations.

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9. RELATED PARTY TRANSACTIONS

Management compensation

During the years ended December 31, 2014 and 2013, key members of management of the Corporation, which include its directors and officers, were compensated as follows:

	2014	2013
	\$	\$
Share-based compensation	139,313	-
Other	99,500	90,240
Total compensation	238,813	90,240

Other compensation for the year ended December 31, 2014 in the table above includes \$20,000 (2013 - \$7,500) for consulting services provided by Maverick Projects Inc., a company controlled by Michael Atkinson, the Chief Executive Officer and President of the Corporation. The fees, reported as consulting fees, were incurred for management and business development services provided in the normal course of business, and have been measured at an exchange amount.

Also included in other compensation for the year ended December 31, 2014, is \$79,500 (2013 - \$82,740) accrued or paid to Ionic Management Corp. ("Ionic"), related by virtue of having certain officers in common, for services provided by the Chief Financial Officer and Corporate Secretary of the Corporation as well as other administrative services. These amounts are included in consulting fees in the consolidated statements of loss and comprehensive loss, and as at December 31, 2014, \$6,000 (December 31, 2013 - \$12,000) is included in accounts payable and accrued liabilities.

Other related party transactions

Excluded from the management compensation table, above is \$22,500 paid to Ionic during the year ended December 31, 2014 (2013 - \$nil) in connection with services provided in connection with a private placement completed in the period, which has been charged as a reduction to share capital. Additionally, an employee of Ionic who is not a director or officer of the corporation was granted 75,000 options with a value of \$6,966 during the year ended December 31, 2014 (2013 - \$nil).

The Corporation paid \$257,064 and issued 2,143,100 compensatory Finders' Warrants with a fair value of \$242,626 in connection with a private placement financing (note 7b) to Sprott Global Resource Investments Ltd. ("SGRIL") or Sprott Private Wealth LP, an affiliate of SGRIL. SGRIL has significant influence over the Corporation through its ownership of greater than 20% of the Corporation's common shares. These payments, which were made for finders' services and were on the same terms as those paid to other finders, have been recorded as a reduction in the value of share capital.

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10. INCOME TAXES

The Corporation's income tax recovery (expense) reflects an effective tax rate that differs from the statutory tax rate. A reconciliation of this difference is as follows:

	2014	2013
	\$	\$
Expected income tax recovery from net loss at statutory tax rates (2014: 25%; 2013: 25%)	155,992	97,655
Less accounting expenses not deductible for income tax purposes	(36,570)	-
Plus taxable deductions not recorded for accounting purposes	99,919	-
Adjustments to enacted tax rates and prior year adjustments	683	(141,280)
Change in unrecognized deductible temporary differences and other	(220,024)	43,625
Income tax recovery	-	-

Deferred tax assets as at December 31, 2014 and 2013 comprise the following:

	December 31	December 31
	2014	2013
	\$	\$
Deferred tax assets:		
Non-capital loss carry-forwards	8,458,944	8,501,688
Capital loss carry-forwards	2,498,654	2,498,654
Temporary differences in property, plant and equipment	2,530,230	2,680,658
Share issuance costs	80,455	2,705
Asset retirement obligations	62,500	12,500
Total deferred tax asset	13,630,783	13,696,205
Unrecognized deferred tax asset	(13,630,783)	(13,696,205)
Deferred tax asset	-	-

There is no objective evidence that the benefit from the Corporation's deferred tax assets will be realized, therefore the Corporation has not recognized any deferred tax asset at December 31, 2014. Should the Corporation demonstrate future profitability, these assets may be fully or partially recognized.

As at December 31, 2014, the Company has non-capital loss carry-forwards available to carry forward to future years totaling approximately \$33.8 million (December 31, 2013 - \$34.0 million).

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The current balance expires as follows:

Year	Amount (\$ millions)
2015	1.0
2016	0.2
2017	-
2018	-
2019	-
2020 and beyond	32.6
Total	33.8

11. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments as at December 31, 2014 consist of cash, accounts receivable, restricted cash, and accounts payable and accrued liabilities. Due to the short term nature of these instruments, their carrying values approximate their fair values. The fair values of financial instruments are allocated between three levels of a fair value hierarchy, based on the degree of certainty around the fair values. The levels and the valuation techniques used to value financial instruments are as follows:

Level 1 - Quoted prices in active markets for identical assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Significant other observable inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Significant unobservable inputs

Significant reliance is placed on unobservable prices, supported by little or no market activity.

As at December 31, 2014, cash and cash equivalents and restricted cash held by the Corporation were considered to be Level 1 financial instruments.

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Classification of financial instruments

All financial assets (except for cash and cash equivalents and restricted cash which are classified as fair value through profit and loss) are classified as loans and receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There are no financial assets on the consolidated statement of financial position that have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the year ended December 31, 2014.

Financial instrument risk management

The nature of the Corporation's financial instruments and its operations expose the Corporation to market risks and credit risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors of the Corporation has the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

a) Market risks

Market risks include unfavorable movements in commodity prices, interest rates, and foreign exchange rates. As at December 31, 2014, the Corporation held no producing assets, held the majority of its net assets in cash, did not have any interest-bearing liabilities and has no commercial operations. Consequently, the Corporation has no significant exposure to market risks.

b) Credit risk

Credit risk is the risk of default on payment by counterparties to financial assets held by the Corporation. Virtually all of the Corporation's accounts receivables are concentrated with a limited number of customers and joint venture partners in the oil and gas industry. Management considers this concentration of credit risk to be acceptable, as customers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. The Corporation requires cash calls from its partners on major field projects in advance of commencement.

Consolidated accounts receivable as at December 31, 2014 was \$16,530. The maximum exposure to credit risk is therefore represented by the carrying amount of accounts receivable on the consolidated statement of financial position. In the immediate future, it is not expected that the Corporation's exposure to credit risk will be significant.

c) Concentration risk

Concentration risk is the risk that a significant proportion of the Corporation's cash is held with one financial institution, exposing the Corporation to the risk that this institution may not have the liquidity to honour withdrawals or redemptions of the Corporation's funds. As at December 31, 2014, the largest balance of cash and cash equivalents held with any single institution was \$4,638,168. Although the Corporation ensures the credit ratings of the financial institutions it deals with are high, the Corporation may seek to diversify holdings in the future.

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12. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation defines capital as shareholders' equity and working capital. The Board of Directors does not establish quantitative return on capital criteria for management.

As at December 31, 2014, the Corporation's focus is to preserve the base of its cash available for redeployment in producing assets. There have been no changes in the Corporation's capital management strategies and processes during the year ended December 31, 2014.

The Corporation has no externally imposed capital requirements and there are no external financial covenants to which the Corporation must adhere.