SERRANO RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SERRANO RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
AS AT

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	$ 684	$ 766
Receivables (Note 4)	7,195	1,018
Prepaid	50,000	-
Total current assets	57,879	1,784
Non-current assets		
Cash held in trust (Note 5)	69,458	69,458
Total assets	$ 127,337	$ 71,242
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities (Notes 6 and 8)	$ 7,583,672	$ 7,190,279
Total current liabilities	7,583,672	7,190,279
Shareholders' deficit		
Capital stock (Note 7)	44,966,123	44,817,579
Reserves (Note 7)	252,043	252,043
Accumulated other comprehensive loss – cumulative translation adjustment	(883,431)	(542,918)
Deficit	(51,791,070)	(51,645,741)
Total shareholders' deficit	(7,456,335)	(7,119,037)
Total liabilities and shareholders' deficit	$ 127,337	$ 71,242

Nature, continuance of operations, and going concern (Note 1)

Approved by the Board on August 23, 2018 and signed on behalf of the Board:

"Byron Coulthard"	Director	*"Cyrus Driver"*	Director
Byron Coulthard		Cyrus Driver	

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

SERRANO RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
EXPENSES				
Consulting	$ 50,000	$ -	$ 50,000	$ -
Finance charge	41	41	82	100
Investor relations	-	2,018	-	2,018
Office and general	135	-	135	-
Professional fees (Note 8)	7,160	24,810	14,160	31,810
Transfer agent and filing fees	12,558	15,816	18,527	15,816
Loss before other items	(69,894)	(42,685)	(82,904)	(49,744)
OTHER ITEMS				
Gain (loss) on settlement of debt	(50,000)	738	(50,000)	738
Interest income	-	-	-	520
Foreign exchange gain (loss)	(5,971)	184,497	(12,425)	301,870
Total other items	(55,971)	185,235	(62,425)	303,128
Income (loss) for the period	(125,865)	142,550	(145,329)	253,384
OTHER COMPREHENSIVE LOSS				
Exchange difference on translating foreign operations	(165,024)	153,933	(340,513)	155,699
Comprehensive income (loss) for the period	$ (290,889)	$ 296,483	$ (485,842)	$ 409,083
Basic and diluted income (loss) per common share	$ (0.00)	$ 0.05	$ (0.00)	$ 0.08
Weighted average number of common shares outstanding	72,899,577	3,139,318	72,604,959	3,139,318

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

SERRANO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	$ (145,329)	$ 253,384
Items not affecting cash:		
Foreign exchange loss (gain)	12,425	(301,870)
Gain on settlement of accounts payable	-	(738)
Changes in non-cash working capital items:		
Increase in receivables	(6,177)	(2,482)
Increase in prepaid	(50,000)	-
Increase in accounts payable and accrued liabilities	190,455	52,121
Net cash flows provided by operating activities	1,374	415
CASH FLOWS FROM INVESTING ACTIVITY		
Cash held in trust	-	(521)
Net cash flows used in investing activity	-	(521)
CASH FLOWS FROM FINANCING ACTIVITY		
Share issuance costs	(1,456)	-
Net cash flows used in financing activity	(1,456)	-
Change in cash during the period	(82)	(106)
Cash, beginning of period	766	720
Cash, end of period	$ 684	$ 614
Cash paid (received) during the period for interest	$ -	$ -
Cash paid (received) during the period for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 10)

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

SERRANO RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Capital Stock		Reserves					
	Number of Shares	Amount	Share-based Payments	Other	Total	Accumulated Other Comprehensive Income (Loss) - Cumulative Translation Adjustment	Deficit	Total Shareholders' Deficit
Balance at January 1, 2017	3,139,318	$ 35,106,088	$ 303,589	$ 252,043	$ 555,632	$ (953,034)	$ (47,205,313)	$ (12,496,627)
Transfer to deficit upon expiration of options	-	-	(303,589)	-	(303,589)	-	303,589	-
Other comprehensive loss for the period	-	-	-	-	-	155,699	-	155,699
Income for the period	-	-	-	-	-	-	253,384	253,384
Balance at June 30, 2017	3,139,318	$ 35,106,088	$ -	$ 252,043	$ 252,043	$ (797,335)	$ (46,648,340)	$ (12,087,544)
Balance at January 1, 2018	72,507,112	$ 44,817,579	$ -	$ 252,043	$ 252,043	$ (542,918)	$ (51,645,741)	$ (7,119,037)
Shares issued for debt settlement	1,428,571	150,000	-	-	-	-	-	150,000
Share issuance costs	-	(1,456)	-	-	-	-	-	(1,456)
Other comprehensive loss for the period	-	-	-	-	-	(340,513)	-	(340,513)
Loss for the period	-	-	-	-	-	-	(145,329)	(145,329)
Balance at June 30, 2018	73,935,683	$ 44,966,123	$ -	$ 252,043	$ 252,043	$ (883,431)	$ (51,791,070)	$ (7,456,335)

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

1. NATURE, CONTINUANCE OF OPERATIONS, AND GOING CONCERN

Serrano Resources Ltd. ("Serrano" or the "Company") was incorporated under the Business Corporations Act of Alberta, Canada. The Company is listed on the NEX as it did not meet the requirements of a TSX Venture Tier 2 issuer.

The Company's head office address is Suite 2020, 401 West Georgia Street, Vancouver, BC, V6B 5A1. The Company's registered and records office address is 400 – 570 Granville Street, Vancouver, BC, V6C 3P1.

The condensed consolidated interim financial statements of the Company are presented in Canadian dollars, which is the functional and reporting currency of the parent Company.

Going concern of operations

These condensed consolidated interim financial statements have been prepared on the going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. At June 30, 2018, the Company has a deficit of $51,791,070 (December 31, 2017 - $51,645,741) and has incurred losses since inception. The continuing operations of the Company are dependent upon obtaining necessary financing to meet the Company's commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. There is substantial doubt that the Company can meet general operating and property expenditures requirement due to its limited working capital. There can be no assurances that the Company will be able to raise additional financial resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and evaluation activities. These uncertainties raise substantial doubt upon the Company's ability to continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

	June 30, 2018	December 31, 2017
Deficit	$ (51,791,070)	$ (51,645,741)
Working capital deficiency	(7,525,793)	(7,188,495)

2. BASIS OF PREPARATION

Statement of compliance

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

2. BASIS OF PREPARATION (cont'd…)

Basis of consolidation and presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The condensed consolidated interim financial statements include the financial statements of Serrano Resources Ltd. and its subsidiaries (the "Group") are listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
Equinox TSB Development (Nigeria) Ltd.	Lagos, Nigeria	100%	Not active
146411 Alberta Ltd.	Alberta, Canada	100%	Not active

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency for the parent company and 146411 Alberta Ltd. The functional currency for Equinox TSB Development (Nigeria) Ltd. is US dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgment and estimation uncertainties

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include, but are not limited to, the following:

i) Going concern risk assessment (refer to further discussion in Note 1 under *Going concern of operations*); and

ii) Determination of the functional currency

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Significant accounting judgment and estimation uncertainties (cont'd…)

i) *Deferred income taxes* - The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. At each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

Exploration and evaluation assets

a) Intangible exploration assets:

i) Pre-exploration expenditures:

Costs incurred prior to obtaining the legal rights to explore an area are recognized in net income (loss) as incurred.

ii) Exploration expenditures:

Exploration expenditures include costs associated with the acquisition of a license interest, directly attributable general and administrative costs, expenditures incurred in the process of determining oil and gas exploration targets, and exploration drilling costs. All exploration expenditures are capitalized on a license-by-license basis within intangible exploration assets. Costs are held un-depleted until such time as the exploration phases on the license area are complete or commercially viable reserves have been discovered and extraction of those reserves is determined to be technically feasible.

If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a single field cost center within "oil and gas interests" subsequent to determining that the assets are not impaired. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in net income (loss).

Net proceeds from any disposal of an intangible exploration asset are initially credited against the previously capitalized costs. Any surplus proceeds are recorded as a gain in net income (loss).

iii) Development and production costs:

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalized within "oil and gas interests" on a field-by-field basis. Subsequent expenditures are capitalized only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed in net income (loss).

Net proceeds from any disposal of "oil and gas interests" are credited against the previously capitalized cost. A gain or loss on disposal is recognized in net income (loss) to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalized costs of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets (cont'd...)

b) Depletion and depreciation:

The net carrying value of "oil and gas interests" are depleted on a field-by-field basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

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

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

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

Foreign currencies

The presentation currency of the Company is the Canadian dollar.

The functional currency of each of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The functional currency of Serrano Resources Ltd. and 146411 Alberta Ltd. is Canadian dollars and for Equinox TSB Development (Nigeria) Ltd. the functional currency is US dollars.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the Statement of Comprehensive Income (loss) in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) in the Statement of Comprehensive Income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currencies (cont'd…)

Subsidiary

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's exchange difference on translating foreign operations on the Statement of Comprehensive Income (Loss) and are reported as a separate component of shareholders' equity titled "Cumulative Translation Adjustment". These differences are recognized in profit or loss in the period in which the operation is disposed of.

Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

Provision for environmental rehabilitation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations:

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

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Capital stock

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate oil and gas properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are assigned the residual value after the main component of the equity financing (common shares) is valued. Warrants that are issued as payment for agency fee or other transaction costs are accounted for as share-based payments.

In situations where capital stock is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of issuance.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit or loss over the remaining vesting period

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share-based payments (cont'd…)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received in the profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of capital stock.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioral considerations. All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to capital stock, adjusted for any consideration paid. When options are cancelled or are not exercised at the expiry date the amount previously recognized in equity is transferred from reserves to deficit.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss ("FVTPL") - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in initial carrying amount of the assets.

Loans and receivables ("LAR") - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

Held-to-maturity investments ("HTM") - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale ("AFS") - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities ("OFL") - This category consists of liabilities carried at amortized cost using the effective interest method. These financial liabilities are initially recognized at fair value less directly attributable transaction costs.

Refer to Note 11 for classification of the Company's financial assets and liabilities.

Convertible debentures

Convertible debentures are classified separately into financial liability and equity components in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using a discount rate that would have been applicable to non-convertible debt. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or paid off. The equity component is determined by deducting the amount of the liability component from the face value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

Convertible debenture instruments denominated in foreign currencies are presented as a liability in two parts, a loan liability and a conversion feature liability, accreted by way of a charge to earnings with a corresponding credit to the liability and interest payments are applied against the accrued liability. The conversion feature liability is revalued to fair market value at every reporting period and the change in valuation is recognized in profit or loss.

Loss per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. During the period ended June 30, 2018, all outstanding stock options were not in-the-money. There were no warrants or options as at June 30, 2018.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Accounting standards and interpretations adopted

During the period ended June 30, 2018, the Company adopted the following new accounting standards, interpretations, and amendments, neither of which had material impact on the condensed consolidated interim financial statements.

- New standard IFRS 9, Financial Instruments, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

- IFSR 15 Revenue from Contracts with Customers is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. This standard is effective for years beginning on or after January 1, 2018.

New accounting standards and recent pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the Company's June 30, 2018 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company unless otherwise stated. The Company plans to adopt these standards and interpretations during the period required.

- New standard IFRS 16, Leases, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

4. RECEIVABLES

The Company's receivables are as follows:

	June 30, 2018	December 31, 2017
GST receivable	$ 7,195	$ 1,018

(Expressed in Canadian Dollars)

5. CASH HELD IN TRUST

Cash held in trust is comprised of funds held in trust by the Alberta Energy and Utilities Board as security in respect of future reclamation costs associated with the Company's oilfield waste water treatment and power generation facility.

6. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

		June 30, 2018		December 31, 2017
Trade payables	$	7,296,952	$	6,938,310
Accrued liabilities		227,547		231,547
Due to related parties (Note 8)		59,173		20,422
Total	$	7,583,672	$	7,190,279

7. CAPITAL STOCK AND RESERVES

a) Authorized capital stock

As at June 30, 2018, the authorized capital stock of the Company is an unlimited number of common shares without par value. All issued shares are fully paid.

b) Issued capital stock

During the period ended June 30, 2018, the Company settled $100,000 of accounts payable. The Company issued 1,428,571 shares valued at $150,000 in settlement of debt resulting in a loss of $50,000 on the settlement of debt.

During the year ended December 31, 2017, the Company settled an aggregate of $4,780,877 of accounts payable, related party loans, and convertible debentures. The Company issued 69,367,794 shares valued at $9,711,491 in settlement of such debt resulting in a loss of $4,930,614 on the settlement of debt.

c) Stock options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the approximate market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and periods of vesting are determined by the Board of Directors.

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2016	23,000	$	15.00
Expired	(23,000)		15.00
Balance, December 31, 2017 and June 30, 2018	-	$	-
Number of options currently exercisable	-	$	-

(Expressed in Canadian Dollars)

7. CAPITAL STOCK AND RESERVES (cont'd…)

c) Stock options (cont'd…)

During the year ended December 31, 2017, the Company recorded a transfer of fair value of $303,589 (2016 - $2,764,186) to deficit for 23,000 (2016 – 184,000) stock options expired.

There were no options granted during the period ended June 30, 2018 and the year ended December 31, 2017.

8. RELATED PARTY TRANSACTIONS

The Company incurred the following fees and expenses in the normal course of operations in connection with the following related parties:

	Nature of transactions	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Related parties:			
A firm where a Director of the Company is a former partner	Professional fees	$ 10,000	$ 26,900

The amounts due to related parties included in accounts payable and accrued liabilities are as follows:

	June 30, 2018	December 31, 2017
Due to a firm where a Director of the Company is a former partner	$ 49,173	$ 10,422
Due to a Director of the Company	10,000	10,000
	$ 59,173	$ 20,422

During the year ended December 31, 2017, the Company settled debt with common shares. $3,498,434 of debt that was settled was with related parties. 51,047,166 common shares were issued to related parties, and the Company realized a loss on settlement of these amounts of $3,648,170.

(Expressed in Canadian Dollars)

9. CONVERTIBLE DEBENTURES

	June 30, 2018	December 31, 2017
Beginning balance, liability portion of convertible debentures	$ -	$ 2,052,522
Settlement of debt	-	(2,022,347)
Foreign exchange gain	-	(30,175)
Ending balance, liability portion of convertible debentures	$ -	$ -

On October 29, 2012, the Company announced the closing of the first tranche of a convertible debt financing which consisted of $1,000,000, $100,000 and US$500,000. The debentures are for a one year term and bear interest at 12% per annum. Proceeds of the convertible debt financing are convertible into units of the Company at $10.00 per unit. Each unit consists of one common share and one half share purchase warrant with each full warrant being convertible into one additional common share of the Company at $15.00 per share for a period of two years from closing. The Company has the right to retire the convertible debentures on 20 days notice to subscribers conditional upon payment of principal and all outstanding interest. No commission was paid with respect to the convertible debt financing.

As at December 31, 2013, all of the convertible loans expired without formal loan extension. The equity portion of convertible debentures of $222,904 (net of $74,302 deferred income tax recovery) was reversed to deficit as the conversion feature of the loan expired. The loans were payable on demand and recognized as straight loans.

During the year ended December 31, 2017, the convertible debentures were fully settled through the issuance of common shares (Note 7).

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the six months period ended June 30, 2018 and 2017, significant non-cash investing and financing transactions included the following:

a) Reclassification of $Nil (2017 – $303,589) fair value of stock options expired to deficit.
b) Exploration and evaluation expenditures of $Nil (2017 - $7,251,167) included in accounts payable.
c) Common shares issued for settlement of debt values at $150,000 (2017 - $Nil).

11. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liabilities either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS (cont'd…)

The Company's primary financial instruments are classified as follows:

Financial instruments	Classifications
Cash	FVTPL
Cash held in trust	LAR
Accounts payable and accrued liabilities	OFL
Related party loans	OFL
Convertible debentures	OFL

The fair value of these assets and liabilities approximates their respective carrying amounts due to their short term nature except as otherwise noted. The fair value of the Company's cash constitutes a Level 1 fair value measurement. The Company does not currently hold any financial instruments that would be included in the classification of AFS.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company manages liquidity risk through the management of its capital structure, as outlined in Note 12 of these financial statements. As at June 30, 2018, the Company had a cash balance of $684 and receivables of $7,195 to settle current liabilities of $7,583,672. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company will require financing from lenders, shareholders and other investors to generate sufficient capital to meet its short term business requirements. The Company is planning additional financings and debt settlements in the near term to raise working capital to finance its ongoing operations.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. As at June 30, 2018, the Company's receivables consisted of $7,195 in GST receivable from government authorities in Canada. Substantially all cash balances are held at chartered banks in Canada. The Company believes it has no significant credit risk.

Market risk

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

a) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company is satisfied with the credit ratings of its banks. As of June 30, 2018, the Company did not hold any investments. The Company believes it has no significant interest rate risk.

11. FINANCIAL INSTRUMENTS (cont'd…)

Market risk (cont'd…)

b) Foreign currency risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company had accounts payable and accrued liabilities of US$5,235,831 denominated in U.S. Dollars.

At June 30, 2018, the U.S. dollars were converted at a rate of USD 1.00 to CAD 1.31961.

Based on the above exposure at June 30, 2018, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately $345,000. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

c) Price risk

The recoverability of the Company's exploration and evaluation assets is indirectly related to the market price of oil and gas. The Company's ability to continue with its exploration program is also indirectly subject to commodity prices. The Company is not currently directly exposed to fluctuations in commodity prices as the Company is currently in the exploration phase and has no production.

12. MANAGEMENT OF CAPITAL RISK

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, reserves and deficit. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity. The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. This strategy is unchanged from prior year.

The Company is not subject to externally imposed capital requirements.

13. CONTINGENT LIABILITIES

The Company has a contingent liability to one vendor in the amount of US$5,543,000, of which the Company has accrued $4,618,635 (US$3,500,000) as at June 30, 2018 (December 31, 2017 - $4,392,710 (US$3,500,000)).

14. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of oil and gas properties.