PETRICHOR ENERGY INC.

Condensed Consolidated Interim Financial Statements

Three Months Ended March 31, 2018

Expressed in Canadian Dollars - unaudited

NOTICE TO READER

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 condensed consolidated interim financial statements have been prepared by and are the responsibility of the management.

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

VANCOUVER, BC
May 30, 2018

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars - unaudited)

	Note	March 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		$ -	$ 1,253
Accounts receivable	4	6,811	97,181
Short-term investments	5	2,261	1,631
		9,072	100,065
Non-current assets			
Property, plant and equipment	6	662,836	662,411
Exploration and evaluation assets	7	2,599,196	2,599,196
		3,262,032	3,261,607
TOTAL ASSETS		**$ 3,271,104**	**$ 3,361,672**
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	8	$ 2,995,413	$ 3,175,012
Land purchase commitment	7	547,651	533,401
Due to related parties	13	2,476,454	2,364,172
Due to shareholders	10	1,172,317	1,134,732
Convertible debentures	9	4,542,398	4,438,442
		11,734,233	11,645,759
Non-current liabilities			
Decommissioning provision	11	21,416	50,860
TOTAL LIABILITIES		11,755,649	11,696,619
EQUITY (DEFICIENCY)			
Share capital	12	65,209,036	65,209,036
Reserves	12	5,800,263	5,800,263
Deficit		(79,493,844)	(79,344,246)
TOTAL EQUITY (DEFICIENCY)		(8,484,545)	(8,334,947)
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		**$ 3,271,104**	**$ 3,361,672**

Nature and continuance of operations (Note 1)
Commitments (Notes 7, 9 and 10)

Approved by the Directors:

"Richard Barnett"

"Joe DeVries"

See accompanying notes to the condensed consolidated interim financial statements

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Comprehensive Loss
Three months ended March 31, 2018 and 2017
(Expressed in Canadian dollars - unaudited)

	Note	2018	2017
Revenue			
Petroleum and natural gas sales, net		$ -	$ 25,134
Less operating costs		-	43,189
		-	(18,055)
Expenses			
Accretion	11	381	360
Consulting and management fees	13	39,000	39,000
Depletion and depreciation	6	-	10,000
Interest and finance fees	8, 9, 10 & 13	145,405	211,764
General and administrative	13	56,398	56,923
Travel and related costs		-	2,923
Foreign exchange loss (gain)		118,144	(37,777)
		359,328	283,193
Net loss from operations		(359,328)	(301,248)
Unrealized gain on short-term investments	13	630	-
Gain on settlement	6	209,100	-
Net loss and comprehensive loss		$ (149,598)	$ (301,248)
Loss per share – basic and diluted		**$ (0.00)**	**$ (0.01)**
Weighted average number of shares outstanding – basic and diluted		**35,288,809**	**35,288,809**

See accompanying notes to the condensed consolidated interim financial statements

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)
Three months ended March 31, 2018 and 2017
(Expressed in Canadian dollars - unaudited)

		Share capital		Reserves			
	Note	**Number of shares**	**Amount**	**Share-based payment reserve**	**Equity component of convertible debenture**	**Deficit**	**Total**
Balance at January 1, 2017		**35,288,809**	**$ 65,209,036**	**$ 5,479,624**	**$ 320,639**	**$ (70,960,078)**	**$ 49,221**
Comprehensive loss		-	-	-	-	(301,248)	(301,248)
Balance at March 31, 2017		**35,288,809**	**65,209,036**	**5,479,624**	**320,639**	**(71,261,326)**	**(252,027)**
Balance at January 1, 2018		**35,288,809**	**$ 65,209,036**	**$ 5,479,624**	**$ 320,639**	**$ (79,344,246)**	**$ (8,334,947)**
Comprehensive loss		-	-	-	-	(149,598)	(149,598)
Balance at March 31, 2018		**35,288,809**	**$ 65,209,036**	**$ 5,479,624**	**$ 320,639**	**$ (79,493,844)**	**$ (8,484,545)**

See accompanying notes to the condensed consolidated interim financial statements

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Cash Flows
Three months ended March 31, 2018 and 2017
(Expressed in Canadian dollars - unaudited)

	2018	2017
Operating activities		
Net loss	$ (149,598)	$ (301,248)
Adjustments for non-cash items:		
Accretion	381	360
Interest and finance fees expense	103,956	-
Depletion	-	10,000
Foreign exchange related to finance activity	14,250	(6,787)
Unrealized loss on short-term investments	(630)	-
Gain on settlement	(209,100)	-
Changes in non-cash working capital items:		
Accounts receivable	(2,954)	(27,027)
Trade payables and accrued liabilities	130,160	267,966
Net cash flows used in operating activities	(113,535)	(56,736)
Investing activities		
Expenditures on land purchase commitment	-	(66,621)
Expenditures on property, plant, and equipment	-	(1,043)
Expenditures on exploration and evaluation assets	-	(75,965)
Net cash flows used in investing activities	-	(143,629)
Financing activities		
Subscriptions receivable	-	100,500
Amounts advanced from related parties	112,282	38,178
Net cash flows provided by financing activities	112,282	138,678
Decrease in cash	(1,253)	(61,687)
Cash, beginning	1,253	61,687
Cash, ending	**$ -**	**$ -**

During the three months ended March 31, 2018 and 2017, there were no non-cash transactions.

See accompanying notes to the condensed consolidated interim financial statements

1. Nature and continuance of operations

Petrichor Energy Inc. (the "Company") was formed on August 25, 2005, under the Business Corporations Act (B.C.) in British Columbia, Canada, and its principal activity is the acquisition, exploration and development of oil and gas properties. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "PTP". The head office and registered and records office of the Company are located at 303-595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5.

Going concern

These financial statements are prepared on a going concern basis, which implies the Company will continue realizing its assets and discharging its liabilities in the normal course of business. As at March 31, 2018, the Company had a working capital deficiency of $11,725,161 and an accumulated deficit of $79,493,844. The Company will require additional financing in order to meet its current financial obligations and to continue its operations. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts presented on its statement of financial position.

As a result of the Company not making the required principal and interest payments on the convertible debentures (Note 9), the convertible debentures were past due as at March 31, 2018, and the date of the approval of these financial statements, which constitutes an event of default. At March 31, 2018, the balance payable relating to the convertible debentures was $4,542,398. The convertible debentures are secured by a first fixed charge on the Company's interests in the Marble Falls Prospect (Note 7), the Company's primary asset. Within the going concern assertion it is presumed that the Company will be able to remedy the default on its convertible debentures and retain its interest in the Marble Falls Prospect.

2. Significant accounting policies and basis of preparation

The condensed consolidated interim financial statements were authorized for issuance on May 30, 2018 by the directors of the Company.

Statement of compliance to International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These interim financial statements do not contain all of the information required for full annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2017.

These Financial Statements follow the same accounting policies and methods of application as our most recent annual financial statements, save for the adoption of IFRS 9 and 15 for the 2018 fiscal year starting on January 1, 2018. The adoption of these IFRS and their impact on these Financial Statements are covered in Note 3. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

2. Significant accounting policies and basis of preparation (cont'd)

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned United States subsidiary, Petrichor Energy (US) Corp. ("Petrichor US").

Significant estimates and assumptions

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

Estimates and assumptions where there is a significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of property, plant and equipment and exploration and evaluation assets, depletion and depreciation expense, transfer of exploration and evaluation cost to property, plant and equipment, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the determination of the functional currency of the parent company and its subsidiary.

Foreign currency translation

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the company's functional and presentation currency.

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 year-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 loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

2. Significant accounting policies and basis of preparation (cont'd)

Foreign currency translation *(cont'd)*

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

- assets and liabilities are translated at period-end exchange 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 recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring the legal right to explore, technical services and studies, exploration drilling and testing, directly attributed general and administrative costs. These costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units. Once technical feasibility and commercial viability have been established, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas properties and accounted for as property, plant and equipment. Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. In the event of a farm out arrangement, the Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized. If the consideration exceeds amounts previously capitalized, any excess is recorded in the statement of comprehensive loss.

Property, plant and equipment

Property, plant and equipment, which include oil and gas properties where technical feasibility and commercial viability have been established, are measured at cost less accumulated depletion and depreciation, and adjustments for impairment. Costs include expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment, including oil and gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss. Farm-outs of oil and gas properties included in property, plant and equipment are accounted for as a disposition of an interest in the asset in exchange for the fair value of goods and services received pertaining to the Company's retained interest in the asset.

2. Significant accounting policies and basis of preparation (cont'd)

Property, plant and equipment (cont'd)

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

Depletion and depreciation

Oil and gas properties included in property, plant and equipment are depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Depletion is calculated separately for each cash-generating unit.

Proved and probable reserves are estimated by independent, qualified reserve engineers 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 probability, to be recoverable in future years from known reservoirs which are considered commercially producible.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using a Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets.

2. Significant accounting policies and basis of preparation (cont'd)

Financial instruments (cont'd)

Held-to-maturity investments are non-derivative financial assets that have fixed maturities or determinable payments, and it is the Company's intention to hold these investments to maturity. They are measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within twelve months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. The Company does not have any derivative financial assets and liabilities.

Impairment of assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in comprehensive income (loss). The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Management has evaluated the oil and gas properties of the Company, and grouped the properties into cash-generating units on the basis of how operations are managed, the ability of these properties to generate independent cash flows, similar reserve characteristics, geographical location and shared infrastructure.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

2. Significant accounting policies and basis of preparation (cont'd)

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically valuates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:
Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Decommissioning provision

The Company provides for dismantling, decommissioning and site disturbance remediation activities based on current legislation and industry operating practices. Provision is made for the estimated cost of decommissioning obligations and capitalized in the respective asset category unless it arises from the normal course of production activities, in which case it is recognized in profit or loss. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the date of the statement of financial position. Subsequent to initial measurement, the obligation is adjusted at the end of each reporting 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 a finance cost and increases/decreases due to changes in the estimated future cash flows to decommission the asset are capitalized. Actual costs incurred upon settlement of the site restoration obligations are charged against the provision to the extent the provision were established.

Earnings (loss) per share

Basic earnings or loss per share is calculated by dividing the earnings or loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. For all periods presented, basic loss per share equals diluted loss per share as the Company either made a loss, or all potentially dilutive instruments were not in the money.

3. New standards, interpretations and amendments adopted

Except as described below, the accounting policies in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2017.

The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements for the year ending December 31, 2018.

The Company has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. The effect of initially applying these standards did not have a material impact on the Corporation's financial statements. A number of other new standards are also effective from January 1, 2018 but they also did not have a material impact on the Corporation's financial statements.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" to provide guidance on the recognition of revenue and cash flows arising from an entity's contracts with customers, and related disclosures. The new standard replaces several existing standards related to recognition of revenue and states that revenue should be recognized as performance obligations related to the goods or services delivered are settled. IFRS 15 also provides revenue accounting guidance for contract modifications and multiple-element contracts and prescribes additional disclosure requirements.

The Company adopted IFRS 15 on January 1, 2018 using the retrospective with cumulative effect method. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15.

Upon adoption of IFRS 15, the Company applied the practical expedient such that contracts that were completed in the comparative periods have not been restated. Applying this expedient had no impact to the revenue recognized under the previous revenue accounting standard as all performance obligations had been met and the consideration had been determined.

Effective January 1, 2018, the Company's accounting policy for Revenue is as follows:

Revenue from the sale of crude oil products is recognized when control of the product passes to the customer and it is probable that the Company will collect the consideration to which it is entitled. Control generally passes to the customer at the point in time when the product is delivered to a location specified in a contract. The Company assesses customer creditworthiness throughout the revenue recognition process.

The Company is not an Operator of its oil field. The Company defers to the terms set out by the Operating Agreement, whereby, the Operator executes the sales contracts with customers.

Sales of the Company's crude oil products to customers are made pursuant to contracts based on prevailing commodity pricing at or near the time of delivery. Revenues are typically recorded in the month following delivery and accordingly, the Company has elected to apply the practical expedient to not adjust consideration for the effects of a financing component.

Revenue in the consolidated statement of earnings represents the Company's share of product sales net of royalty payments to governments and other mineral interest owners.

3. *New standards, interpretations and amendments adopted (cont'd)*

IFRS 9 "Financial Instruments"

The Company retrospectively adopted the amendment to IFRS 9 on January 1, 2018 and elected to apply the limited exemption in IFRS 9 relating to transition for impairment. Accordingly, provisions for impairment have not been restated in the comparative periods. Adoption of the amendment did not have a significant impact on the Company's previous accounting for impairment of financial assets.

Effective January 1, 2018, the Company's accounting policy for impairment of financial assets is as follows:

At each reporting date, on a forward looking basis, the Company assesses the expected credit losses associated with its debt instruments carried at amortized cost. For trade accounts receivable, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Credit risk is assessed based on the number of days the receivable has been outstanding and an internal credit assessment of the customer. Credit risk for longer-term receivables is assessed based on an internal credit assessment.

New accounting standards issued but not yet effective

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a material impact on the Company's consolidated financial statements.

4. Accounts receivable

		March 31, 2018		December 31, 2017
GST receivable	$	1,312	$	930
Trade receivables		5,499		96,251
	$	6,811	$	97,181

5. Short-term investments

Short-term investments consist of shares of publically listed companies which are carried at market value.

6. Property, plant and equipment

	Cost	Accumulated Depletion	Impairment	Net
At January 1, 2017	$ 3,329,983	$ (400,700)	$ -	$ 2,929,283
Additions	184,438	-	-	184,438
Impairment (Note 7)	-	-	(2,427,510)	(2,427,510)
Depletion	-	(23,800)	-	(23,800)
At December 31, 2017	$ 3,514,421	$ (424,500)	$ (2,427,510)	$ 662,411
Additions	425	-	-	425
Disposal	(418,981)	418,981	-	-
At March 31, 2018	$ 3,095,865	$ (5,519)	$ (2,427,510)	$ 662,836

Property, plant and equipment consist of oil and gas properties and represent the Company's interest in certain wells in the Verba Field in Mississippi and the Marble Falls Field in Texas, USA. During the year ended December 31, 2017, the Company recognized an impairment on the Verba Prospect in the amount of $1,233,418 (December 31, 2016 - $nil) and on the Marble Falls Prospect in the amount of $1,194,093 (December 31, 2016 - $nil).

During the three months ended March 31, 2018, the Company disposed the Verba Prospect and its related obligations and recognized a gain on settlement of $209,100.

7. Exploration and evaluation assets

	March 31, 2018	December 31, 2017
Acquisition costs		
Balance, beginning	$ 6,084,053	$ 6,084,053
Balance, ending	6,084,053	6,084,053
Exploration and evaluation costs		
Balance, beginning	(3,484,857)	982,186
Additions	-	218,397
Impairment	-	(4,685,440)
Balance, ending	(3,484,857)	(3,484,857)
Total	$ 2,599,196	$ 2,599,196

Marble Falls Prospect, Texas

In a prior year, the Company entered into a participation agreement to acquire a 50% working interest in the Marble Falls Prospect in Texas. On October 17, 2013, the Company acquired an additional 16.66% working interest for US$1,387,500 payable on the following terms: US$150,000 down payment (paid), US$637,500 upon the closing of the November 2013 private placement (paid), and US$600,000 to be paid from (i) 15% of the net revenue received by the Company on any wells drilled and producing on the Marble Falls Prospect and (ii) 15% of any future equity financings with the balance payable by January 31, 2015. As at December 31, 2017, a liability of $533,401 (December 31, 2016 - $639,687) represents the remaining obligation for this land purchase commitment, which, until it has been paid, does not confer ownership. The Marble Falls Prospect serves as security for the convertible debentures issued by the Company during the year ended December 31, 2013 (Note 9).

7. Exploration and evaluation assets (cont'd)

Subsequent to the year ended December 31, 2017, the vendor served notice of default and may take action under the terms of the operator's agreement that may cause the Company to forfeit parts or all of its interests in the Marble Falls Prospect. During the year ended December 31, 2017, the Company recognized an impairment on the Marble Falls Prospect in the amount of $4,685,440 (December 31, 2016 - $nil). The Company is currently trying to negotiate new terms with the vendor.

As at March 31, 2018 and the date that these three months-end financial statements were approved, the convertible debentures plus interest are past due, which per the terms of the convertible debentures constitutes an event of default, upon which the lenders have not taken any action. The convertible debentures are secured by a first fixed charge on the Company's interest in Marble Falls. The Company is currently trying to negotiate new terms with the debenture holders.

As at March 31, 2018, the Company owed the operator of the Marble Falls Prospect $3,358,227 (US$2,606,125) relating to its share of costs incurred, inclusive of the $547,651 land purchase commitment.

8. Trade payables and accrued liabilities

	March 31, 2018	December 31, 2017
Trade payables	$ 2,964,163	$ 3,150,012
Accrued liabilities	31,250	25,000
	$ 2,995,413	$ 3,175,012

As at March 31, 2018, the Company owed Blakenergy Ltd. the operator of the Marble Falls Prospect, $3,358,227 (US$2,606,125) relating to its share of costs incurred, inclusive of the $547,651 land purchase commitment. Blakenergy Ltd. charges the Company monthly financing fees on the balance owing. During the three months ended March 31, 2018, the Company was charged $nil (March 31, 2017 - $67,574) which is included in interest and finance fees.

9. Convertible debentures

On September 26, 2013, the Company completed a convertible debenture financing by issuing convertible debentures totaling $3,400,000. The convertible debentures are past due which constitutes an event of default. Upon the approval by the debenture holders, the trustee may give notice to the Company that all unpaid principal and interest are immediately due and payable. The trustee may further, if so required by the convertible debenture holders, commence proceedings to take possession of any or all of the secured assets which include the Marble Falls Prospect subject to the vendors liens and rights under their agreements (Note 7).

9. Convertible debentures (cont'd)

The debentures bear interest at 12% per annum, payable quarterly. The proceeds of the debentures were allocated between the equity and liability components by determining the estimated fair value of the liability component and applying the residual balance to the equity component. The fair value interest rate was estimated at 18% and resulted in an initial fair value of the liability component of $2,763,940, net of costs totaling $176,625, and a residual value of $431,839, net of costs totaling $27,596, assigned to the equity component. After initial recognition the liability component was carried on at amortized cost basis and was accreted to its face value over the term to maturity at an effective interest rate (not the contractual interest rate) of approximately 19.08%.

The balance of the convertible debenture is calculated as follows:

	March 31, 2018	December 31, 2017
Convertible debentures balance forward	$ 4,438,442	$ 4,022,618
Interest accrued and payable	103,956	415,824
Balance	$ 4,542,398	$ 4,438,442

The secured convertible debenture matured September 26, 2016 and has not been paid. The Company is currently in negotiations with the debenture holders to extend the maturity date and alter the payment terms, but there is no certainty that the negotiations will be successful. The debenture continues to accrue interest.

10. Due to shareholders

Due to shareholders relates to amounts advanced by shareholders and is comprised of loans as follows:

The balance of advances received from several shareholders in 2014 totaling $175,000. These amounts are unsecured, non-interest bearing with no fixed terms for repayment;

A $215,520 (US$186,000) unsecured loan advanced on December 30, 2014 net of a fixed fee of $10,776 (US$9,300), accruing interest at 1% per month, repayable on demand;

A $75,000 unsecured loan advanced December 29, 2014, net of a fixed fee of $7,500, accruing interest at 1% per month, repayable on demand;

A $28,948 (US$30,000) unsecured loan advanced on December 31, 2012 that accrues interest at 1% per month, repayable on demand;

The balance of advances from numerous shareholders received in 2013 totaling $72,767. These amounts are unsecured, non-interest bearing with no fixed terms for repayment;

A $245,786 (US$200,000) unsecured loan advanced on April 22, 2015, accruing interest at 1% per month, repayable on demand; and

A $46,845 unsecured loan advanced on June 29, 2015, accruing interest at 1% per month, repayable on demand.

A continuity of the due to shareholders balance is as follows:

	March 31, 2018	December 31, 2017
Balance, beginning	$ 1,134,732	$ 1,100,342
Accrued interest and foreign exchange on amounts advanced	37,585	34,390
	$ 1,172,317	$ 1,134,732

11. Decommissioning provision

At March 31, 2018, the Company has a decommissioning provision of $21,416 (December 31, 2017 - $50,860) related to its oil and gas wells (Note 6). The undiscounted liability for provision for decommissioning on the Marble Falls Field is estimated to be $46,250 expected to be incurred in 26 to 27 years. During the period ended March 31, 2018, the Company disposed of the Verba Prospect and its related liabilities (Note 6), including the decommissioning liability of $29,825.

Management used a risk-free rate of 3.00% to determine the present value of the decommissioning provision. During the period ended March 31, 2018, the Company recognized $381 (2017 - $360) in accretion expense.

12. Share capital and reserves

Authorized share capital

The Company has authorized an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. At March 31, 2018, there were 35,288,809 (December 31, 2017 – 35,288,809) issued and fully paid common shares.

Stock options

The Company has adopted a 10% rolling stock option plan which provides that the Board of Directors may, in accordance with TSX-V requirements, grant options to directors, officers, employees, and consultants of the Company, provided that the number of options will not exceed 10% of the Company's issued and outstanding common shares. Option vesting terms are established upon grant, at the discretion of the Board of Directors.

No Stock options were granted during the period ended March 31, 2018 and 2017. There were no outstanding stock options as at March 31, 2018 and 2017.

Warrants

There were no warrants outstanding as at March 31, 2018 and 2017, and no transactions during the period then ended.

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense until the options are exercised, at which time the corresponding amount will be transferred to share capital.

Equity component reserve

The equity component reserve consists of the equity portion of convertible debt, offset by the related deferred income tax recovery.

13. Related party transactions

Related party balances

Amounts due to related parties consist of charges accrued for office administration, management fees and loans to the Company. These amounts are due to directors, officers, or companies controlled by directors or officers. These amounts are unsecured and are due on demand.

13. Related party transactions (cont'd)

The following amounts are due to related parties:

	March 31, 2018	December 31, 2017
Accrued payables to companies controlled by the CEO or CFO	$ 1,716,562	$ 1,616,655
Loans from a company controlled by the CEO with interest at 12% per annum	759,892	747,517
	$ 2,476,454	$ 2,364,172

Related party transactions

	Three Months Ended	
	March 31, 2018	March 31, 2017
Management fees incurred with companies controlled by the CEO or the CFO	$ 39,000	$ 39,000
Interest costs at 12% per annum on unsecured loans advanced to the Company by a company controlled by the CEO	21,650	19,922
General and administrative fees incurred with a company controlled by the CEO	39,000	39,000
	$ 99,650	$ 97,922

Key management personnel compensation

	Three Months Ended	
	March 31, 2018	March 31, 2017
Management fees	$ 39,000	$ 39,000

14. Financial risk and capital management

The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by a bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. The Company's secondary exposure to risk is on accounts receivable. This risk is assessed as moderate.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

14. Financial risk and capital management (cont'd)

Historically, the Company's main source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. This risk is assessed as high.

Foreign exchange risk

Foreign exchange risk is the risk that the future fair value of cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's financial results are reported in Canadian dollars while it conducts a significant portion of its business activities in US dollars. The assets, liabilities and expenses that are denominated in US Dollars will be affected by changes in the exchange rate between the Canadian dollar and the US Dollar.

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in US Dollars:

	March 31, 2018	December 31, 2017
Cash	$ 0	$ 13
Accounts receivable	5,499	96,251
Trade payables	(2,837,955)	(3,641,520)
Land purchase commitment	(547,651)	(533,401)
Due to shareholders	(698,589)	(665,731)
	$ (4,078,696)	$ (4,744,388)

Based on the above net exposures, as at March 31, 2018, a 1% change in the US Dollar against the Canadian dollar exchange rate would impact the Company's net loss by approximately $40,787.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not currently exposed to significant interest rate risk as it does not hold any debt that bears interest at variable rates.

Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not exposed to externally imposed capital requirements. There have been no changes to the Company's capital management structure during the period ended March 31, 2018.

14. Financial risk and capital management (cont'd)

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	March 31, 2018	December 31, 2017
Loans and receivables:		
Cash	$ -	$ 1,253
Accounts receivable	6,811	97,181
Fair value through profit and loss:		
Short-term investments	2,261	1,631
	$ 9,072	$ 100,065

Financial liabilities included in the statement of financial position are as follows:

	March 31, 2018	December 31, 2017
Non-derivative financial liabilities:		
Trade payables	$ 2,995,413	$ 3,175,012
Due to shareholders	1,172,317	1,134,732
Due to related parties	2,476,454	2,364,172
Convertible debentures	4,542,398	4,438,442
Land purchase liability	547,651	533,401
	$ 11,734,233	$ 11,645,759

15. Segmented information

Operating segments

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

Geographic segments

The Company's property, plant and equipment and all revenue sources are located in the USA.