

Whitemud Resources Inc.
Condensed Interim Financial Statements
Three Months ended March 31, 2016

(Unaudited - Prepared by Management)

WHITEMUD RESOURCES INC.

March 31, 2016

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 condensed interim financial statements of the Company have been prepared by Management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed interim 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 auditors.

WHITEMUD RESOURCES INC.
Statements of Financial Position
(Unaudited - Prepared by Management)

	March 31, 2016		December 31, 2015
Assets			
Current assets			
Cash and cash equivalents <i>[note 5]</i>	\$ 152,584	\$	268,930
Accounts receivable	770,417		1,055,222
Inventory <i>[note 6]</i>	2,310,753		2,394,383
Prepaid expenses and deposits	77,212		30,850
	3,310,966		3,749,385
Property, plant and equipment <i>[note 8]</i>	7,743,690		8,116,270
	\$ 11,054,656	\$	11,865,655
Liabilities and Shareholders' Equity (Deficiency)			
Current liabilities			
Accounts payable and accrued liabilities	\$ 233,349	\$	526,967
Notes payable <i>[note 9]</i>	37,779,989		36,881,528
	38,013,338		37,408,495
Asset retirement obligation <i>[note 10]</i>	933,425		902,969
	38,946,763		38,311,464
Shareholders' Deficiency			
Share capital (note 11)	77,902,637		77,902,637
Contributed surplus	5,353,381		5,353,381
Deficit	(111,148,125)		(109,701,827)
	(27,892,107)		(26,445,809)
	\$ 11,054,656	\$	11,865,655
Future operations <i>[note 1]</i>			

On behalf of the Board of Directors:

Director

Director

WHITEMUD RESOURCES INC.
Statements of Net Loss and Comprehensive Loss
For the Three Months ended March 31
(Unaudited - Prepared by Management)

	2016	2015
Revenue	\$ 263,089	117,916
Expenses		
Operating	347,525	383,784
General and administration	61,681	123,849
Finance charges <i>[note 13]</i>	903,357	789,194
Depreciation <i>[note 3]</i>	398,374	111,853
	1,710,937	1,408,680
Loss before interest and other income	(1,447,848)	(1,290,764)
Recovery of bad debt		
Interest and other income	1,550	3,458
Net loss and comprehensive loss	\$ (1,446,298)	(1,287,306)
Net loss per share, basic and diluted <i>[note 14]</i>	\$ (0.004)	(0.004)

WHITEMUD RESOURCES INC.
Statements of Changes in Shareholders' Equity (Deficiency)
For the Three Months ended March 31, 2016
(Unaudited - Prepared by Management)

	Share Capital		Contributed Surplus		Deficit	Total
Balance January 1, 2016	\$	77,902,637	\$	5,353,381	\$ (109,701,827)	\$ (26,445,809)
Net loss and comprehensive loss		-		-	(1,446,298)	(1,446,298)
Balance March 31, 2016	\$	77,902,637	\$	5,353,381	(111,148,125)	\$ (27,892,107)

	Share Capital		Contributed Surplus		Deficit	Total
Balance January 1, 2015	\$	77,902,637	\$	5,353,381	\$ (101,185,057)	\$ (17,929,039)
Net loss and comprehensive loss		-		-	(1,287,306)	(1,287,306)
Balance March 31, 2015	\$	77,902,637	\$	5,353,381	(102,472,363)	\$ (19,216,345)

WHITEMUD RESOURCES INC.
Statements of Cash Flows
Three Months Ended March 31
(Unaudited - Prepared by Management)

	2016	2015
Cash provided by (used) in:		
OPERATING ACTIVITIES:		
Net loss	\$ (1,446,298)	(1,287,306)
Items not involving cash:		
Depreciation	398,374	111,853
Accretion of asset retirement obligations	4,662	4,547
Accrued interest on notes payable	898,461	784,509
	(144,801)	(386,397)
Change in non-cash working capital <i>[note 16]</i>	28,455	207,096
	(116,346)	(179,301)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment (note 8)	-	(2,063)
	-	(2,063)
FINANCING ACTIVITIES:		
Increase in note payable <i>[note 9]</i>	-	-
	-	-
Increase (decrease) in cash and cash equivalents	(116,346)	(181,364)
Cash and cash equivalents, beginning of period	268,930	187,510
Cash and cash equivalents/(bank indebtedness), end of period	\$ 152,584	6,146

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the "Company") was originally incorporated as the General Partner of Whitemud Resources Limited Partnership (the "Partnership") on April 28, 2005 under the laws of the Province of Alberta, Canada. The Company was restructured through an amalgamation between the Company and the Partnership under the laws of the Province of Alberta on July 27, 2006. The Company is headquartered in Calgary, Alberta, Canada. The registered address of the Company is 3900 Bow Valley Square 2, Calgary, Alberta T2P 2V7.

The Company was formed to engage in the business of developing a process to mine and process kaolin into a high-reactivity metakaolin that imparts beneficial properties to concrete mixtures containing up to 20% replacement of Portland cement. Since inception, the efforts of the Company have been devoted to the development of a process of producing kaolin and metakaolin, developing market demand, and planning and constructing the production facilities to manufacture the product. The Company has launched industrial production from its facility. However the Company has not earned sufficient revenues and the future is dependent on customer acceptance of the product, further development of markets, and its ability to obtain additional financing. With the formation of a new division, Midstream Energy Partners, the Company will also market hydrocarbon products. To date, the Company has been funded primarily from proceeds of an initial public offering, private placements of special warrants, the issuance of convertible debentures and notes payable.

Going Concern

These financial statements were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at March 31, 2016, the Company had a working capital deficiency of \$34,655,872 (December 31, 2015 – \$33,659,110). During the period ended March 31, 2016, the Company had a net loss of \$1,399,798 (2015 - \$1,287,306) and negative operating cash flows of \$116,346 (2015 - \$179,301) with a resulting accumulated deficit at March 31, 2016 of \$111,101,625 (2015 - \$109,701,827). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required.

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

Based on the Company's current projections, including budgeted loss and negative cash flows for fiscal 2016, future operations are dependent on the Company's ability to identify financing options, to generate improved market acceptance for the Company's product and the ongoing support of its creditors. Management is currently reviewing its options for additional financing. The Company has not made required interest payments to creditors and is in default under the loan agreement. The creditors have not demanded repayment of the loan to date. There is no assurance that the creditors will not demand repayments of the loans before the maturity date. There may be significant challenges in obtaining long term financing in order to meet its obligations.

During 2015, the Company formed Midstream Energy Partners, a new division, with the intention of diversifying the Company's revenue streams through the marketing of hydrocarbon commodities in addition to kaolin and metakaolin. This division was formed to generate new revenue streams to assist the Company in paying down its debts and stabilize its operations.

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the successful completion of the actions taken or planned by management. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Company's product.

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS *(continued)*

The financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Those adjustments would be material.

2. BASIS OF PREPARATION

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC") effective as at January 1, 2015.

These financial statements were authorized for issuance by the Board of Directors of the Company on May 25, 2016.

These financial statements have been prepared on a historical cost basis except for financial instruments classified as financial assets at fair value through profit or loss ("FVTPL") that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except cash flow information.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies as outlined below:

a) Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar, which is the currency of the primary economic environment on which the Company operates. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Any gains or losses are recorded in the statement of net loss and comprehensive loss.

b) Financial Instruments

The Company does not have any derivative instruments.

Non-derivative financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Cash and cash equivalents are included in FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. Accounts receivable are classified as loans and receivables.

Other financial liabilities

The Company has other financial liabilities including accounts payable and accrued liabilities and notes payable.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

c) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make critical estimates and judgments that affects the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the process of applying the Company's accounting policies management takes into consideration existing circumstances and estimates at the date of these financial statements, which affects the reported amounts of income and expenses during the reporting periods. Given the uncertainty inherent in determining these factors, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management estimates relate to, but are not limited to:

(i) Impairment tests

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company determines the recoverable amount of the asset group. The impairment for long-lived assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, changes in customer or industry dynamics, new technologies, environmental considerations, economic declines, discount rates and other relevant assumptions.

(ii) Share based compensation plans

The Company accounts for share-based compensation plans in accordance with IFRS 2 Share-based Payment which requires companies to recognize the cost of such awards of equity instruments based on the fair value of those awards. The Company estimates the fair value of stock option awards on the date of grant utilizing a Black-Scholes option valuation model. Certain key assumptions include the stock price volatility, forfeiture rates, and expected term.

(iii) Asset retirement obligations

The Company applies a number of assumptions in estimating provisions that are recorded for asset retirement obligations and environmental remediation at the mine site. These factors include estimated future costs, discount rates, anticipated life of the plant and inflation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iv) Inventories

The Company values inventories at the lower of cost and net realizable value through inventory allowances. Inventory allowances require estimates and assumptions about forecasted selling prices and the demand for kaolin and metakaolin.

(v) Property, plant and equipment

Depreciation and amortization are calculated using the unit of production method based upon the reserve life of the kaolin deposits and the declining balance method based upon the useful life of non-mine assets. The estimated useful life and residual value are management's best estimates and are based upon historical experience and market conditions.

(vi) Trade and other receivables

Impairment of trade and other receivables which include receivables from shareholders are constantly monitored. Impairments are based upon historical values, observed customer solvency, external credit ratings, aging of the receivable and industry risks.

(vii) Taxes

Uncertainties exist with respect to the interpretation of the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

d) Cash and cash equivalents

Cash and cash equivalents are classified as FVTPL and include balances with Canadian chartered banks.

e) Inventory

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on a weighted average cost basis. The cost of finished goods includes direct materials and direct labor.

f) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

Where an item of property, plant and equipment comprises significant parts with useful lives that are significantly different from that of the asset as a whole, the parts are accounted for as separate items of property, plant and equipment and depreciated accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognizing an asset determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Net Loss and Comprehensive Loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Expenditures incurred that renew or refurbish plant and equipment to extend its useful life or increase its productive capacity are capitalized when it is determined that a future benefit will flow to the Company as a result of the renewal.

The Company depreciates the costs of its property, plant and equipment over their estimated useful lives using the following rates and methods:

Processing plant, mine preparation and mine expansion	35% declining balance
Buildings	20% declining balance
Plant equipment	30% declining balance
Computer equipment	30% declining balance
Vehicles	3 year straight line
Furniture and equipment	20% declining balance
Leasehold improvements	Over term of lease
Assets under capital lease	Over term of lease

The Company commenced the depreciation of its processing plant in October 2008.

Change in accounting estimate

The Company changed the rate of depreciation on the processing plant and buildings during the period ended March 31, 2016 to more properly reflect the systematic amortization of the assets over their economic useful life. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets.

g) Stripping costs

Deferred stripping costs represent the cost incurred to remove overburden and other waste materials to access ore. Stripping costs incurred prior to the production phase of the mine are capitalized and included as part of the carrying value of the mineral property to the extent of future economic benefit. During the production phase, stripping costs, which provide probable future economic benefits, improved access to an identifiable ore body and which can be measured reliably are capitalized to inventory. Capitalized stripping costs are amortized using a unit of production basis over the proven and probable reserve to which they relate. If it is determined that there are no future economic benefits, the stripping costs are expensed as incurred.

h) Mineral properties

The Company expenses mineral exploration costs in the year they are incurred unless deferral criteria are met and it is probable that they will be recovered from future operations. Upon determining that the mineral property can be economically developed through proven and probable reserves, the costs of future exploration and development to further delineate the reserves on such property are capitalized. Determination of proven and probable reserves is based upon results of technical reports indicating whether the property is economically viable.

Expenditures that meet the criteria for capitalization are amortized on a unit of production basis from the point of commencing commercial production. Such costs include all acquisition, geological, testing, product development, exploration and direct general and administration charges associated with the exploration and development of the property.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of non-financial assets

The Company assesses at each reporting date, whether there is an indication that an asset or a cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash flows largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of the those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the Statement of Net Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term selling prices and volumes, discount rates, future capital requirements, exploration potential and operating performance.

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. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Impairment losses are reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized.

j) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include: significant financial difficulty of the obligor; delinquencies in interest or principal payments; and the probability that the borrower will enter bankruptcy or other financial reorganization. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Asset retirement obligations

The Company's operations give rise to decommissioning, restoration and rehabilitation activities. Environmental costs arise when environmental disturbances are caused by the exploration, development or ongoing production of a mineral property interest. The net present value of future restoration cost estimates arising from the decommissioning, restoration and rehabilitation are capitalized to related assets with a corresponding increase in the restoration provision in the period incurred. Discounting using risk free rates that reflect the time value of money are used to calculate the net present value. The capitalized restoration costs are charged against income and loss over the economic life of the related asset, through depreciation on a unit of production method. The restoration provision is accreted to net present value each reporting period with the unwinding of the restoration provision being charged to finance expense in the Statement of Net Loss and Comprehensive Loss. Actual costs incurred to settle the site restoration obligation are charged against the provision. Any difference between the actual costs incurred and the provision is recognized as a gain or loss in the Statement of Net Loss and Comprehensive Loss in the period in which the settlement occurs.

The Company's estimates of restoration costs could change as result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to related assets with a corresponding entry to the restoration provision.

l) Taxes

Taxes on the profit or loss for the periods presented comprise current and deferred tax. Tax is recognized in profit or loss except to the extent that relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax legislation enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

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.

m) Revenue recognition

Revenue from the sale of kaolin and metakaolin is recorded when the title passes to the customer, amounts are fixed or can be determined and the Company's ability to collect is probable.

n) Royalties

Royalty payments for kaolin quarried and processed under the Quarrying Regulations are recorded to operating expenses as incurred.

o) Leases

A lease that transfers substantially all of the benefits of ownership is classified as a finance lease. At the inception of the lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under finance lease are depreciated on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases under which lease costs are expensed on as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Loss per common share amounts

Basic loss per common share amounts is calculated using the weighted average number of shares outstanding during the year. Diluted loss per common share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on the exercise of in-the-money options would be used to purchase shares at the average market price. The weighted average number of basic shares outstanding is then adjusted by the net change.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed by the Company's management in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as those that can be allocated on a reasonable basis.

4. RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements

The Company adopted no new IFRS's or Interpretations during 2016.

Future accounting pronouncements issued but not yet applied

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" is a new financial instruments standard effective for annual period beginning on or after January 1, 2018 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities. The Company is currently assessing the impact of this standard.

IFRS 15, "Revenue from Contracts with Customers" was issued in 2014 and replaces the two main recognition standards IAS 18, "Revenue", and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principle upon which an entity recognizes revenue and becomes effective January 1, 2018. The Company is currently assessing the impact of this standard.

IFRS 16, "Leases" was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases effective for annual period beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. The Company is currently assessing the impact of this standard.

5. CASH AND CASH EQUIVALENTS

As at March 31, 2016, cash and cash equivalents of \$152,584 (2015 - \$268,930) consist of cash on hand and cash deposits at the Company's bank.

6. INVENTORY

The Company has inventory as follows:

		2016		2015
Metakaolin	\$	1,660,233	\$	1,742,353
Kaolinized mineral resource		333,828		333,828
Spare parts		297,360		297,360
Fuels, coal and miscellaneous		19,332		20,842
	\$	2,310,753	\$	2,394,383

Operating expenses includes \$83,630 (2015 - \$105,695) related to the cost of inventory from sales.

7. RECLAMATION BOND

In 2012, a \$50,000 letter of credit and corresponding \$50,000 deposit was replaced by a \$1 million letter of credit to the Saskatchewan Ministry of Environment as the first installment towards a reclamation bond for the plant and mine site. The letter of credit was issued by Petrogas Energy Corp.

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Assets under capital lease	Leasehold improvements, computer equipment, office furniture	Vehicles	Total
Balance December 31, 2014	\$ 28,946,657	\$ 33,983,933	\$ 457,956	\$ 49,564	\$ 40,644	\$ 63,478,754
Additions	-	27,410	-	3,128	-	30,538
Disposals	-	-	-	-	-	-
Balance December 31, 2015	\$ 28,946,657	\$ 34,011,343	\$ 457,956	\$ 52,692	\$ 40,644	\$ 63,509,292
Additions	-	25,794	-	-	-	25,794
Disposals	-	-	-	-	-	-
Balance March 31, 2016	\$ 28,946,657	\$ 34,037,137	\$ 457,956	\$ 52,692	\$ 40,644	\$ 63,535,086
Depreciation and impairment losses						
Balance December 31, 2014	\$ 20,931,572	\$ 29,993,315	\$ 457,956	\$ 21,801	\$ 40,644	\$ 51,445,288
Depreciation	301,125	137,342	-	9,267	-	447,734
Impairment	1,750,300	1,749,700	-	-	-	3,500,000
Balance December 31, 2015	\$ 22,982,997	\$ 31,880,357	\$ 457,956	\$ 31,068	\$ 40,644	\$ 55,393,022
Depreciation	273,850	121,777	-	2,747	-	398,374
Impairment	-	-	-	-	-	-
Balance March 31, 2016	\$ 23,256,847	\$ 32,002,134	\$ 457,956	\$ 33,815	\$ 40,644	\$ 55,791,396
Carrying Amounts						
At March 31, 2016	\$ 5,689,810	\$ 2,035,003	\$ -	\$ 18,877	\$ -	\$ 7,743,690
At December 31, 2015	\$ 5,963,660	\$ 2,131,077	\$ -	\$ 21,624	\$ -	\$ 8,116,270

8. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in land and buildings is land with a cost of \$486,657 (2015 - \$486,657). Additions to plant and equipment relate to non cash adjustments to a change in the ARO liability estimate described in note 10.

As a result of the going concern circumstances noted in note 1 and the economic uncertainties surrounding the oil and gas industry, an impairment was recorded in the fourth quarter ended December 31, 2015 of \$3,500,000 (2014 - \$4,500,000). The Company determined the recoverable amounts for its CGU using the value in use method based on internally generated cash flow projections. In determining fair value, the Company considered current production costs, long term view of the uses for its products, and recent sales volumes. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating costs and competitive substitutes in the marketplace. In computing the recoverable amount, future cash flows were adjusted for risks and discounted using a discount rate of 14%. This discount rate is considered appropriate for the weighted average cost of capital for this market participant. The recoverable amount is highly sensitive to the discount rate and forecasted prices for products. Holding all other variables constant, a 1% increase in the discount rate applied would increase the impairment by approximately \$725,000 and a 5% decrease in the forecasted sales price applied would increase the impairment by approximately \$1,275,000.

9. NOTES PAYABLE

The Company has the following notes payable:

		March 31, 2016		December 31, 2015
Kasten Resources ("Kasten") (a), (c)	\$	1,862,687	\$	1,818,080
Petrogas Energy Corp. ("Petrogas") (b), (c)		35,917,302	\$	35,063,448
	\$	37,779,989	\$	36,881,528

- (a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance as at March 31, 2016 includes accrued interest of \$723,126 (2015 - \$678,519).
- (b) Petrogas provided operational and Proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2015 - \$7,515,938) after receivership to recommence operations. The outstanding balance as at March 31, 2016 includes accrued interest of \$12,417,302 (2015 - \$11,563,448).
- (c) The notes payable to Kasten and Petrogas (the "lenders") include a fully advanced term loan in the amount of \$24,639,561 (2015 - \$24,639,561) which is due on demand and had a maturity date of January 16, 2014 unless demanded prior to that date. The loan was not repaid on January 16, 2014. The Company has not made the required principal and interest payments to creditors and is in default of its loan agreement. The lenders have agreed to extend the maturity date of the loan to August 31, 2016. The lenders have increased advances made available on a demand operating loan, originally set at up to \$5,000,000. Both debt facilities bear an interest rate of 10% per annum compounded semi-annually at the end of February and August of each year. Principal reductions of 1/20th of the outstanding balance are required annually on April 4th, the anniversary date of the loan agreement. The lenders hold a general security agreement and other collateral registered as a first charge against all assets of the Company. There is no assurance that the creditors will not demand repayment of the loan before the maturity date.

10. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation results from ownership of a processing facility and mine property in southern Saskatchewan. The Company has completed construction of the plant and preparation of the mine and commissioned the facility. A third-party assessment of costs to decommission the plant and clean the plant site amounts to \$1,000,000, to be incurred by 2033. Internal assessments of costs to decommission the plant were conducted and revaluations of ARO due to inflation factors and discount rate changes as required by IFRS resulted in revisions of \$25,794 (2015- \$27,410) due to inflation factors and a decrease in the risk-free interest rate to 2.00% (2015 – 2.16%). The amounts are subject to measurement uncertainty with respect to estimated costs, the actual timing of reclamation, the inflation rate and the discount rates used.

		March 31, 2016	December 31, 2015
Balance beginning of year	\$	902,969	856,370
Change in liability estimate		25,794	27,410
Accretion		4,662	19,189
Balance end of year	\$	933,425	902,969

11. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of Class A common shares without par value and voting
Unlimited number of Class B common shares without par value and non-voting
Unlimited number of preferred shares

Common Shares Issued

	Number of shares	Amount
Class A Common shares December 31, 2011	18,026,300	\$ 77,902,637
Issued pursuant to Court Order	16,000,000	-
Class A Common Shares, December 31, 2015 and March 31, 2016	34,026,300	\$ 77,902,637

	Number of shares	Amount
Class B Non-voting Common shares December 31, 2012	-	\$ -
Issued pursuant to Court Order	326,499,700	-
Class B Non-voting Common Shares, December 31, 2015 and March 31, 2016	326,499,700	\$ -

Pursuant to an order of the Court of Queen's Bench of Alberta dated August 12, 2011, Kasten and Petrogas were issued 16,000,000 Class A Common Shares and 326,499,700 Class B Non-voting Common Shares. Due to the financial position of the Company and the facts described in Note 1, no additional cash consideration has been ascribed to these shares.

As a result, the pre-receivership holders of the 18,026,300 Class A Common Shares will continue to hold 52.98% of the issued Class A Common Shares (being 5.5% of the total number of all issued shares).

11. SHAREHOLDERS' EQUITY *(continued)*

On April 3, 2013, a cease trade order was revoked by the Alberta Securities Commission and on June 27, 2013 an application to have the Company reinstated for trading on the NEX was approved by the TSXV.

Shareholder Loans

To assist employees in exercising the options granted, the Company made shareholder loans to certain employees for the sole purpose of exercising their stock options. Each of these shareholder loans was interest free, secured by a promissory note and associated shares received upon exercise and for a period not to exceed four years or until the associated shares are sold, if earlier. Promissory notes were signed by all employees receiving these shareholder loans. The loans were due December 31, 2010 and repayment was not received. A total of \$659,600 was provided as loans to employees in 2006 to exercise 659,600 stock options. To date \$96,825 of the loans have been repaid resulting in shareholder loans outstanding in the amount of \$562,775 (2015 - \$562,775) and is included in accounts receivable at March 31, 2016 and December 31, 2015. The Company has commenced action to collect the unpaid amounts.

The amounts outstanding from those previously employed in this regard are as follows:

	March 31, 2016	March 31, 2015
Chief Executive Officer, President and Chief Financial Officer	\$ 430,950	\$ 430,950
Other management and employees	131,825	131,825
	\$ 562,775	\$ 562,775

None of the above individuals were employed by the Company in 2016 or 2015.

12. CAPITAL MANAGEMENT

As part of the management of capital, the Company prepares annual operating and capital budgets and may from time to time issue new equity or debt in order to finance its capital expenditures. The Company has not declared or paid any dividends on its outstanding shares and any decision to pay dividends in the future would be based upon the financial condition of the Company. The Company may elect to alter its capital structure through the issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The capital structure, as disclosed on the Statements of Financial Position, consists of cash and cash equivalents, notes payable, obligations under finance liability and shareholders' deficiency.

	March 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 152,584	\$ 268,930
Notes payable	37,779,989	36,881,528
Shareholders' deficiency	\$ (27,892,107)	\$ (26,445,809)

Since August 2011, all operational funding has been provided by Petrogas as disclosed in Note 9 through notes payable.

With respect to the notes payable, the Company has not made required principal and interest payments to creditors and is in default of its loan agreement. The lenders have extended the maturity date of the loan to August 31, 2016. There is no assurance that the creditors will not demand repayment of the loan on the maturity date.

13. FINANCE CHARGES

Financing charges are comprised of:

		2016		2015
Debt service	\$	234	\$	2,673
Interest on notes payable		898,461		2,967,536
Accretion from asset retirement obligations		4,662		13,544
	\$	903,357	\$	2,983,753

14. PER SHARE

Net loss per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the period ended March 31, 2016 is 360,526,000 (2015 - 360,526,000).

15. TAXES

The Company has non-capital losses of approximately \$89,000,000 (2015 - \$89,000,000) that are available to offset future taxable income. The non-capital losses will expire as follows:

2025	\$	244,000
2026		350,000
2027		3,009,000
2028		6,480,500
2029		9,055,000
2030		12,633,700
2031		1,171,000
2032		18,586,000
2033		14,770,000
2034		12,000,000
2035		10,650,000

The Company has undepreciated capital cost and resource tax pools of \$18,000,000 (2015 - \$18,000,000) which are available for deduction against future taxable income. The realization of tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no deferred tax asset has been recognized.

16. SUPPLEMENTAL CASH FLOW DISCLOSURE

		2016		2015
Accounts receivable	\$	284,805	\$	97,674
Inventory		83,630		105,695
Prepaid expenses and deposits		(46,362)		(99,450)
Accounts payable and accrued liabilities		(293,618)		103,177
Attributable to operating activities	\$	28,455	\$	207,096

17. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals is \$nil (2015 – \$485) payable to Petrogas Energy Corp. Included in accounts receivable is \$175,529 (2015 - \$419,687) due from Petrogas Energy Corp.

The notes payable in note 9 are held by Petrogas Energy Corp.

To assist former employees in exercising stock options, the Company had established shareholder loans to employees for the sole purpose of exercising their stock options as described in note 11.

The remuneration of directors and executive officers during the year is as follows:

		2016		2015
Salaries and other short term benefits:	\$	15,700	\$	27,300

18. OPERATING SEGMENTS

For management purposes, the Company is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Company as two reportable operating segments as follows:

1. Mining, processing and marketing kaolin and metakaolin
2. Midstream Energy Partners – managing and marketing hydrocarbons

	Metakaolin	Hydrocarbons	Total
Revenue	\$ 92,942	\$ 170,147	\$ 263,089
Operating costs	(285,607)	(61,918)	(347,525)
Depletion and amortization	(398,374)	-	(398,374)
General and administrative	(55,086)	(6,595)	(61,681)
Finance charges	(903,357)	-	(903,357)
Other income (expense)	<u>1,232</u>	<u>318</u>	<u>1,550</u>
Income (loss) before taxes	<u>\$ (1,548,250)</u>	<u>\$ 101,952</u>	<u>\$ (1,446,298)</u>
Current assets	<u>\$ 3,135,437</u>	<u>\$ 175,529</u>	<u>\$ 3,310,966</u>
Total assets	<u>\$ 10,879,127</u>	<u>\$ 175,529</u>	<u>\$ 11,054,656</u>
Current liabilities	<u>\$ 37,983,655</u>	<u>\$ 29,683</u>	<u>\$ 38,013,338</u>
Total liabilities	<u>\$ 38,917,080</u>	<u>\$ 29,683</u>	<u>\$ 38,946,763</u>

19. FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Fair Values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the immediate or short term maturity of these financial instruments.

The financial assets classified as fair value through profit or loss are measured within level 1 of the fair value hierarchy as described below:

Level 1 – Unadjusted quotes prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 –Inputs to the valuation methodology are not based on observable market data.

The following table outlines the Company's financial assets and liabilities carrying values and estimated fair values, including the level of measurement of fair values within the fair value hierarchy described below.

	March 2016		December 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial Assets				
Fair value through profit or loss:				
Cash and cash equivalents	\$ 152,584	\$ 152,584	\$ 268,930	\$ 268,930
Loans and receivables				
Accounts receivable	770,417	770,417	1,055,222	1,055,222
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	233,349	233,349	526,967	526,967
Notes payable	37,779,989	37,779,989	36,881,528	36,881,528

Risk Management

The Company's risk management program focuses on minimizing the potential adverse effects on the Company's financial performance. The Company manages risks and risk exposure through a combination of a system of internal and disclosure controls, as well as insurance and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Any significant risks are monitored and when appropriate, actions will be taken according to the Company's policies established related to that purpose. In addition, as required, the risks are reviewed with the Company's Board of Directors.

19. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

The Company defines interest rate risk as the financial risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company currently maintains cash balances and notes payable. The Company's current policy is to invest any excess cash not required for operations in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its guaranteed investment certificates is immaterial as the funds available for investment are minimal due to the funds being needed to fund ongoing operations. Any change in interest rates would not result in any material change in expected interest income.

The Company's notes payable bearing interest at a fixed rate of 10% per annum. A change in interest rates would increase the risk that interest payments would be made on a timely basis and negatively affect cash flow. The interest rates on the Company's notes payable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk.

Credit Risk

Credit risk is defined as the financial risk associated with non-performance of contractual obligations by counterparties. Credit risk arises from cash held with the Company's bank along with credit exposure to customers and other outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company's objective for managing the counterparty credit risk is to prevent losses on its financial assets. The Company is not yet in full commercial production, but upon full commercial production will assess the credit quality of its counterparties, taking into consideration their financial position, past payment histories and other factors. Management will regularly monitor counterparty credit limits and perform credit reviews. The Company's current sensitivity to credit risk is managed by dealing with reputable customers. Prior to significant commercial sales, relatively minimal supplies are required, with the Company's counterparty credit risk limited to government agencies and select companies that do not present any material concerns.

The Company's financial assets consist of accounts receivable (\$770,417). Accounts receivable includes \$562,775 due from former directors and officers of the Company as explained in Note 11. None of the trade accounts receivable is over 90 days past due. There is a receivable due from Petrogas Energy Corp in the amount of \$175,529 for commodity sales made by Midstream Energy Partners, a division of Whitemud Resources Inc. The allowance for doubtful accounts as at March 31, 2016 is \$nil (2015 - \$nil). Approximately 100% (2015 - 98%) of the Company's sales are with one customer.

The allowance for doubtful accounts is charged to the statements of net loss and comprehensive loss. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by customer evaluation of collectability at each statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern problems.

Foreign Currency Exchange Risk

The Company currently operates in Canada and deals periodically with suppliers and customers in the United States. The functional currency of the Company and reporting currency is the Canadian dollar. Current dealings with suppliers in the United States are very minimal in comparison to dealings with Canadian suppliers. The Company has not entered into any derivative agreements to mitigate this risk.

As at March 31, 2016 the Company had \$nil (2015 - nil) in US\$ receivables and \$23,827 (2015 - \$297,076) in US\$ payables.

19. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At March 31, 2016, the Company had a working capital deficiency of \$34,655,872 (2015 – \$33,659,110). The Company's trade payables and accrued liabilities are \$186,849, of which, \$79,781 was 90 days overdue.

The Company has demand notes payable in the amount of \$37,779,989 as described in Note 9. The Company has not made the required principal and interest payments under the loan agreement. The lenders have agreed to extend the maturity date of the loan to August 31, 2016. According to the loan agreement, the unpaid interest is an event of default and the amount is to be added to the principal amount of the loan. There is no assurance that the creditors will not demand repayment of the loan on the maturity date. The Company requires the ongoing support of its creditors. All of the Company's operations in 2016 have been funded by Petrogas. As at March 31, 2016, Petrogas has advanced \$7,515,938 for operational and capital funding.

The timing of the cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 year	Thereafter	Total
Accounts payable and accrued liabilities	\$ 233,349	\$ -	\$ 233,349
Notes payable	\$ 37,779,989	\$ -	\$ 37,779,989