International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2017

Contents

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Frontier Resources Corporation

We have audited the accompanying financial statements of International Frontier Resources Corporation, which comprise the consolidated balance sheet as at December 31, 2017, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Frontier Resources Corporation as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

The consolidated financial statements of International Frontier Resources Corporation as at and for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 25, 2017.

KPMG LLP

Chartered Professional Accountants

April 23, 2018
Calgary, Canada

International Frontier Resources Corporation

Consolidated Balance Sheets

As at:	December 31, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents (Note 17)	**$ 5,640,735**	$ 1,944,420
Accounts receivable	**318,940**	194,610
Prepaids and deposits	**83,215**	17,785
Assets held for sale (Note 5)	**-**	502,150
	6,042,890	2,658,965
Restricted cash on deposit (Note 6)	**300,000**	300,000
Investment in TE Corporation (Note 15)	**1,293,930**	365,780
Exploration and evaluation assets (Note 7)	**5,569,785**	6,958,260
Property, plant and equipment (Note 8)	**4,985**	6,550
	$ 13,211,590	$ 10,289,555
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 359,030**	$ 357,900
Liabilities related to assets held for sale (Note 5)	**-**	1,303,425
	359,030	1,661,325
Shareholders' Equity		
Share capital (Note 10a)	**52,895,985**	44,854,935
Contributed surplus (Note 10b)	**12,048,430**	12,482,395
Deficit	**(52,091,855)**	(48,709,100)
	13,211,590	8,628,230
	$ 13,211,590	$ 10,289,555

Commitments and contingencies (Note 16)

On behalf of the Board

(Signed) "Gary Lyons" Director **(Signed) "Anthony Kinnon"** Director

See accompanying notes to the consolidated financial statements

International Frontier Resources Corporation

Consolidated Statements of Operations and Comprehensive Loss

For the year ended	December 31, 2017	December 31, 2016
Expenses		
General and administration	**$ 1,497,000**	$ 1,270,555
Pre-exploration costs (Note 14)	**252,000**	258,620
Depreciation (Note 8)	**1,565**	31,980
Impairment (Note 7)	**1,489,415**	787,000
Finders' fee (Note 10a(i))	**-**	187,500
Share based compensation (Note 10d)	**90,625**	247,385
Gain on disposition of properties (Note 5)	**(677,055)**	-
Loss on equity investment (Note 15)	**669,300**	258,435
	3,322,850	3,041,475
Finance income and expenses		
Interest income	**23,655**	15,030
Foreign exchange loss	**(83,560)**	(29,435)
	(59,905	(14,405)
Net loss and comprehensive loss from continuing operations	**$ (3,382,755)**	$ (3,055,880)
Net loss from discontinued operations (Note 5)	**-**	(196,250)
Net loss and comprehensive loss	**$ (3,382,755)**	$ (3,252,130)

Net loss from continuing operations per share (Note 12)		
Basic	**$ (0.03)**	$ (0.03)
Net loss from discontinued operations per share (Note 12)		
Basic	**$ (0.00)**	$ (0.00)
Net loss per share (Note 12)		
Basic and diluted	**$ (0.03)**	$ (0.03)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Statements of Changes in Equity

	December 31, 2017			December 31, 2016		
	Number		Amount	Number		Amount
Share Capital						
Balance, beginning of year	**100,690,845**	**$**	**44,854,935**	**85,540,845**	**$**	**43,296,940**
Shares issued for cash (Note 10a) (ii)	**18,068,160**		**5,059,085**	**12,800,000**		**1,600,000**
Shares issued in lieu of finder's fee	**-**		**-**	**1,250,000**		**187,500**
Shares issue on exercise of options (Note 10a) (I))	**325,000**		**63,500**	**450,000**		**88,440**
Shares issue on exercise of warrants (Note 10c)	**25,311,880**		**3,101,635**	**650,000**		**98,310**
Value of warrants	**-**		**-**	**-**		**(424,245)**
Share subscriptions receivable	**-**		**12,500**	**-**		**30,865**
Share Issue costs			**(195,670)**			**(22,875)**
Balance, end of year	**144,395,885**	**$**	**52,895,985**	**100,690,845**	**$**	**44,854,935**
Contributed surplus						
Balance, beginning of year		**$**	**12,482,395**		**$**	**11,870,515**
Share based compensation expense (Note 10d)			**90,625**			**247,385**
Value of warrants			**-**			**424,245**
Exercise of warrants			**(497,590)**			**(25,310)**
Exercise of stock options			**(27,000)**			**(34,440)**
Balance, end of year		**$**	**12,048,430**		**$**	**12,482,395**
Deficit						
Balance beginning of year		**$**	**(48,709,100)**		**$**	**(45,456,970)**
Net loss			**(3,382,755)**			**(3,252,130)**
Balance end of year		**$**	**(52,091,855)**		**$**	**(48,709,100)**

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Statements of Cash Flows

For the year ended December 31,	2017	2016
Operating		
Net loss from continuing operations	$ (3,382,755)	$ (3,055,880)
Non-cash items:		
Gain on disposition of properties	(677,055)	-
Depletion and depreciation	1,565	31,980
Impairment	1,489,415	787,000
Finders' fee	-	187,500
Share based compensation (Note 10d)	90,625	247,385
Loss on equity investment (Note 15)	669,300	258,435
	(1,808,905)	(1,543,580)
Change in non-cash working capital (Note 17)	(188,630)	341,115
Cash flow used in continuing operations	(1,997,535)	(1,202,465)
Cash flow used in discontinued operations	(124,220)	(163,780)
	(2,121,755)	(1,366,245)
Investing		
Additions to exploration and evaluation assets (Note 7)	(100,940)	(113,800)
Additions to property and equipment (Note 8)	-	(785)
Investment in TE Corporation (Note 15)	(1,597,450)	(484,430)
Cash flow used in continuing investing activities	(1,698,390)	(599,015)
Cash flow used in discontinued investing activities	-	(65,780)
	(1,698,390)	(664,795)
Financing		
Units issued for cash (Note 10)	5,059,085	1,600,000
Exercise of warrants	2,604,045	73,000
Exercise of options	36,500	54,000
Share subscription receivable	12,500	30,865
Share issuance costs	(195,670)	(22,875)
Cash flow from continuing financing activities	7,516,460	1,734,990
Net change in cash and cash equivalents	3,696,315	(296,050)
Cash and cash equivalents		
Beginning of year	1,944,420	2,240,470
End of year	$ 5,640,735	$ 1,944,420

Supplemental cash flow information (Note 17)

See accompanying notes to the consolidated financial statements.

1. Nature of operations

International Frontier Resources Corporation (the "Company") is an independent Canadian publicly traded company, the principle business of which is to acquire, develop, exploit and produce oil and natural gas in Mexico, the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada, and in north-west Montana in the United States. These consolidated financial statements are denoted in Canadian dollars.

The Company was incorporated under the Canada Business Corporations Act in Alberta, Canada in 1997. The Company is listed on the TSX Venture Exchange, having the symbol IFR-V. The address of the Company's corporate office and principal place of business is Suite 2410, 520 5th Avenue S.W., Calgary, Alberta, Canada.

The consolidated financial statements include the accounts of the Company and its 99.80% owned Mexican subsidiary, Petro Frontera S.A.P.I de CV ("Frontera"), which is accounted for using the consolidation method. All inter-company transactions and balances are eliminated upon consolidation. The consolidated financial statements also include Frontera's 50% investment in Tonalli Energia S.A.P.I. de CV ("TE Corporation"), a Mexican company which is accounted for using the equity method.

2. Basis of preparation and statement of compliance

Statement of compliance

The consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. A summary of the Company's significant accounting policies is presented in Note 3.

These financial statements were approved and authorized for issue by the Board of Directors on April 23, 2018.

Basis of measurement

These financial statements have been prepared on a historical cost basis, unless otherwise required.

The Company's consolidated financial statements include accounts of the Company and its subsidiaries and are expressed in Canadian Dollars, unless otherwise stated.

Functional and presentation currency

The consolidated financial statements are presented in Canadian Dollars which is the Company's reporting currency. The Company's subsidiaries transact in currencies that other than the Canadian Dollar and have a functional currency of Mexican Peso. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the statement of financial position. All exchange differences

2. Basis of preparation and statement of compliance (continued)

arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities form the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in other comprehensive income (loss) and are held within accumulated other comprehensive income (loss) until a disposal or partial disposal of a subsidiary. A disposal or partial disposal with then give rise to realized foreign exchange gain or loss which is recorded in net earnings.

Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the financial statements in accordance with IFRS requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

- Amounts recorded for depletion, depreciation and impairment expense, accretion expense, decommissioning liabilities, fair value measurements, and amounts used in impairment tests for exploration and evaluation assets, and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions.

- The total decommissioning liabilities is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.

2. Basis of preparation and statement of compliance (continued)

- The Company uses the Black-Scholes option pricing model in determining share-based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected life of options and warrants, forfeiture rate, and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated.

- In determining the type of joint arrangement as either a joint operation or a joint venture is based on management's determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

- Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, cash held in trust and short-term deposits with original maturities of three months or less.

Consolidation

The consolidated financial statements of the Company comprise the financial statements of the Company and its subsidiary, Frontera. All intercompany transactions and balances are eliminated on consolidation. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity.

Joint Arrangements

Certain of the Company's activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

3. Summary of significant accounting policies (continued)

Joint operations arise when the Company has a direct ownership interest in jointly controlled assets and obligations for liabilities. The consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of this type of arrangement.

Joint ventures arise when the Company has a right to the net assets of the arrangement. For these arrangements, the Company uses the equity method of accounting and recognizes initial and subsequent investments at cost, adjusting for the Company's share of the joint venture's income or loss, less dividends received thereafter.

At each reporting date the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and the carrying value, then recognizes the loss in the consolidated statement of operations and comprehensive loss.

Investment in Associates

Investments in associates are accounted for using the equity method when the Company determines that it has significant influence over an investment. Investments of this nature are recorded at original cost. Investments in associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Contributions made increase the carrying amount of the investment and distributions received reduce the carrying amount of the investment.

The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. An impairment loss in respect of an equity-method accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss and is reversed if there is a favorable change in the estimates used to determine the recoverable amount.

Revenue recognition

Revenue associated with the production and sales of crude oil is recognized when title passes from the Company to its customer.

Interest income is recognized as the interest accrues using the effective interest method.

Exploration and Evaluation Assets and Property, Plant and Equipment

i) Cost

Oil and gas properties and other property, plant and equipment are stated at cost. The chosen accounting policy requires management to determine the proper classification of activities designated as developmental or exploratory, which then determines the appropriate accounting treatment of the costs incurred for oil and natural gas exploration, evaluation and development expenditures.

The results from an exploration drilling program can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and

3. Summary of significant accounting policies (continued)

industry experience. Exploration drilling costs can fluctuate from year to year due to such factors as the level of exploratory spending, the level of risk sharing with third parties participating in the exploratory drilling and the degree of risk associated with drilling in particular areas.

ii) Exploration and evaluation costs
Once the legal right to explore has been acquired, direct costs of exploration activities are capitalized as intangible exploration and evaluation assets until the assets have been evaluated. Direct costs can include unproved property acquisition costs, geological and geophysical costs, exploratory drilling costs, materials used and contract labour costs. When technical feasibility and commercial viability are demonstrated, the exploration and evaluation costs are then transferred to property, plant and equipment. As long as these assets remain classified as intangible exploration and evaluation assets, they are subject to technical, commercial and management review, as well as a review for indicators of impairment at each reporting period. If there are indicators of impairment, exploration and evaluation assets are tested for impairment at the operating segment level together with property, plant and equipment. Exploration and evaluation assets are derecognized when the legal right to explore has expired or when the carrying value of the asset is no longer expected to be recoverable from future operations. Costs incurred before the Company has a legal right to explore are expensed in the period in which they are incurred as pre-exploration costs.

iii) Petroleum and natural gas properties
Petroleum and natural gas properties are recorded at cost less accumulated depletion and accumulated impairment losses. All direct costs related to the acquisition, exploration and development of petroleum and natural gas properties are initially capitalized. Costs are comprised of the asset's purchase price or construction costs, which can include lease acquisitions, geological and geophysical costs, equipment costs, drilling, completion and tie-in costs, overhead expenses directly related to development activities and an estimate of costs to decommission the asset.

Petroleum and natural gas properties are depleted using the unit-of-production method based on proven and probable reserves as determined by the Company's independent reserve evaluators, using estimated future prices and costs. The depletion cost base includes total capitalized costs plus the estimated future costs associated with developing proven and probable reserves.

Oil and gas reserves are evaluated by an independent qualified reserve evaluator. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depreciation, depletion and impairment expense, in addition to determining possible impairments of property, plant and equipment.

Petroleum and natural gas properties are derecognized when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition is included in the statement of operations and comprehensive loss.

3. Summary of significant accounting policies (continued)

iv) Office furniture and equipment

Office furniture and equipment are stated at historical cost less depreciation and, where necessary, impairment losses. Depreciation is calculated using the following rates and methods:

Office furniture and equipment	20%
Computer equipment and software	30% - 100%

v) Impairment of exploration and evaluation assets and property, plant and equipment

The Company's exploration and evaluation assets and property, plant and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the Company will then perform an impairment test. The test requires that the Company estimate the assets' recoverable amount. The test must be performed at the lowest level of which an asset or a cash generating unit ("CGU") generates cash inflows that are largely independent of those from other assets or another CGU's. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

The recoverable amount is calculated as the greater of an asset or CGU's fair value less costs to sell and its value-in-use. Fair value less costs to sell may be determined using discounted future net cash flows of proven and probable reserves using forecasted market prices and costs. Value-in-use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. Impairment losses are recognized as impairments in the statement of operations and comprehensive loss.

At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indicators exist, the Company estimates the assets or CGU's recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined net of depletion, had no impairment loss been previously recognized for the asset or CGU. Such reversal is recognized in the statement of operations and comprehensive loss.

Earnings Per Share Amounts

Basic earnings per common share are computed by dividing the net earnings by the weighted average number of common shares and warrants outstanding during the period. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if stock options, warrants or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

3. Summary of significant accounting policies (continued)

Income Taxes

Deferred tax is provided using the 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. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable net earnings will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred tax assets and liabilities are recognized at expected tax rates in effect in the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The effect of a change to the tax rate on the future tax assets and liabilities is recognized in net earnings when substantively enacted.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Share-Based Payments and Warrants

The Corporation uses the fair value method for valuing stock options and warrants. Under the fair value method, compensation costs attributable to all stock options and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. The fair value of each option or warrant granted is estimated using the Black-Scholes option pricing model that takes into account the grant date, the exercise price and expected life of the option, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends, if any, on the underlying security. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus or warrants is recorded as an increase to share capital and the contributed surplus.

Financial Instruments

Financial instruments must initially be recognized at fair value on the balance sheet based on their initial classification. Each financial instrument is classified as one of the following categories: financial assets and financial liabilities measured at fair value through profit or loss, loans and receivables, held to maturity investments, available for- sale financial assets, or other financial liabilities.

Financial assets include cash and cash equivalents, accounts receivable, and restricted cash on deposit. Financial liabilities include payables and accrued liabilities.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

3. Summary of significant accounting policies (continued)

i) Financial Assets

For the purpose of subsequent measurement, financial assets, other than those designated as effective hedging instruments, are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. The Company does not have any hedging instruments.

- *Financial assets at fair value through profit or loss* – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash and cash equivalents and restricted cash on deposit fall into this category of financial instruments.
- *Loans and receivables* – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's receivables fall into this category of financial instruments.
- *Held-to-maturity investments* – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.
- *Available-for-sale financial assets – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date that the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. Summary of significant accounting policies (continued)

ii) Financial Liabilities

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- *Financial liabilities at fair value through profit or loss* - Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.
- *Other financial liabilities* – Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of operations and comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's accounts payable and accruals fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

4. New Accounting Policies

<u>Future accounting policies</u>

The following accounting standards and amendments are effective for future periods.

ii) IFRS 9 Financial Instruments

This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch.

This standard is effective for reporting periods beginning on or after January 1, 2018.

The Company does not expect that the adoption of IFRS 9 will have a material impact on the Company's consolidated financial statements.

4. New Accounting Policies (continued)

iii) IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service.

This standard is effective for reporting periods beginning on or after January 1, 2018.

The Company does not expect that the adoption of IFRS 15 will have a material impact on the Company's consolidated financial statements.

iv) IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019.

The Company is examining the impact of this standard on its consolidated financial statements.

5. Discontinued Operations

In December 2016, the Company entered into a preliminary agreement to sell its 100% interest in its oil properties in south east Alberta, Canada. On April 14, 2017, the Company completed the sale for consideration of $1 and the reservation and granting to the Company of a conditional 2.5% gross overriding royalty as pursuant to a Gross Overriding Royalty Agreement.

At December 31, 2017 the conditions for the conditional gross overriding royalty have not been met and no amounts have been accrued or are owing with respect to the Gross Overriding Royalty Agreement.

Pursuant to the sale the Company booked the following gain on disposal of properties:

Proceeds	$	1
Book value of petroleum and natural gas properties		(486,709)
Recovery of decommissioning liabilities		1,194,365
Net loss from assets held for sale		(30,600)
		677,055
Gain on disposal of properties	**$**	**677,055**

5. Discontinued Operations (continued)

The Company's operations for the year ended December 31, 2016 have been presented as discontinued operations in these financial statements. A summary of discontinued operations is as follows:

	2016
Oil revenues, net	$ 380,115
Less: royalties	(94,385)
	285,730
Expenses	
Field operating costs	417,860
Accretion	8,500
Depletion and depreciation	55,620
	481,980
Net loss from discontinued operations	$ (196,250)

The following table represents the balances that have been classified on the consolidated balance sheets as assets held for sale:

		December 31,2016
Assets held for sale		
Receivables	$	15,440
Petroleum and natural gas properties		486,710
		502,150
Liabilities held for sale		
Payables and accruals	$	(100,820)
Decommissioning liabilities		(1,202,605)
	$	(1,303,425)

6. Restricted cash on deposit

As at December 31, 2017, the Company has provided an assignment of cash totaling $300,000 (2016 - $300,000) as security on the irrevocable standby letter of credit for the Northwest Territories Exploration License 495 (see Note 16a).

7. Exploration and evaluation assets

As at December 31, 2017, exploration and evaluation assets consist of total costs incurred less impairments in the the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada and Montana, USA.

Cost		Canada		USA		Total
Balance at December 31, 2015	$	23,141,360	$	2,748,730	$	25,890,090
Additions		113,800		-		113,800
Balance, as at December 31, 2016		23,255,160		2,748,730		26,003,890
Additions		100,940		-		100,940
Balance at December 31, 2017	**$**	**23,356,100**	**$**	**2,748,730**	**$**	**26,104,830**

Accumulated Impairment		Canada		USA		Total
Balance, as at December 31, 2015	$	(16,154,765)	$	(2,103,865)	$	(18,258,630)
Impairments		(787,000)		-		(787,000)
Balance, as at December 31, 2016		(16,941,765)		(2,103,865)		(19,045,630)
Impairments		(844,550)		(644,865)		(1,489,415)
Balance at December 31, 2017	**$**	**(17,786,315)**	**$**	**(2,748,730)**	**$**	**(20,535,045)**

Carrying Value						
Balance at December 31, 2016	$	6,313,395	$	644,865	$	6,958,260
Balance at December 31, 2017	$	5,569,785	$	-	$	5,569,785

As at December 31, 2017, the Company completed a review of its undeveloped properties included in exploration and evaluation assets and determined that there was a total impairment of $1,489,415 (2016 - $787,000). The impairment at December 31, 2017 is made up of

(i) $844,550 with respect to lease rentals paid to date on properties in the Northwest Territories as the Company plans to relinquish its remaining licenses.

(ii) $644,865 (2016 - $Nil) with respect to the remaining net book value of its properties in Montana as there has been no activity in the area and the Company does not have any plans for further development.

The impairment charge at December 31, 2016 of $787,000 is related to its properties in the Central Mackenzie Valley, Northwest Territories and is made up of $597,000 of historic seismic costs and $190,000 for a license that IFR planned to relinquish. Subsequent to year end, the Company proceeded to relinquish this licence.

8. Property, plant and equipment

Cost	Petroleum and natural gas properties	Office furniture and equipment	Carrying Amount
Balance, as at December 31, 2015	$ 4,083,875	$ 136,785	$ 4,220,660
Additions	65,780	785	66,565
Change in decommissioning liability	125,000	-	125,000
Assets held for sale	(4,274,655)	-	(4,274,655)
Balance at December 31, 2016	-	137,570	137,570
Additions	-	-	-
Balance at December 31, 2017	**$ -**	**$ 137,570**	**$ 137,570**
Depletion and depreciation			
Balance, as at December 31, 2015	$ (3,732,220)	$ (99,040)	$ (3,831,260)
Depletion and depreciation	(55,620)	(31,980)	(87,600)
Assets held for sale	3,787,840	-	3,787,840
Balance at December 31, 2016	-	(131,020)	(131,020)
Depletion and depreciation	-	(1,565)	(1,565)
Balance at December 31, 2017	**$ -**	**$ (132,585)**	**$ (132,585)**
Carrying Value			
Balance at December 31, 2016	$ -	$ 6,550	$ 6,550
Balance at December 31, 2017	$ -	$ 4,985	$ 4,985

In April 2017 the Company closed the sale of its oil and gas properties in SE Alberta (see Note 5).

9. Income taxes

a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 27% (2016- 27%) to loss before income taxes. This difference results from the following items:

	2017	2016
Loss before income taxes	**$ (3,382,755)**	**$** (3,252,130)
Expected tax recovery of combined federal and provincial statutory rates	**(913,000)**	(878,000)
Increase (decrease) resulting from:		
Foreign income tax rate differentials	**(29,000)**	(15,000)
Share based compensation	**25,000**	67,000
Other	**14,000**	47,000
	(903,000)	(779,000)
Unrecognized deferred tax asset	**903,000**	779,000
	$ -	$ -

9. Income taxes (continued)

b) Unrecognized temporary differences and other items:

	December 31, 2017	December 31, 2016
Property plant and equipment	**$ 7,563,000**	$ 5,729,000
Asset retirement obligations	**-**	1,203,000
Capital losses	**12,931,000**	12,900,000
Non capital losses	**9,433,000**	7,812,000
Investment in associate and other	**1,018,000**	349,000
Foreign losses and other	**350,000**	71,000
	$ 31,295,000	$ 28,064,000

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately $9,433,000 (2016- $7,812,000) in Canada. Unless sufficient taxable income is earned, these losses will expire as follows:

	Non-capital
2026	$ 253,000
2027	620,000
2028	431,000
2029	942,000
2030	1,253,000
2031	623,000
2032	505,000
2033	140,000
2034	350,000
2035	875,000
2036	1,820,000
2037	1,621,000
	$ 9,433,000

In addition, the Company has $12,931,000 of capital losses that can be carried forward indefinitely and used to offset future taxable capital gains.

10. Share Capital

a) Authorized:
Unlimited common shares, Unlimited preferred shares

	Number of Shares	Issue Price	Amount
Balance at December 31, 2015	85,540,845		$43,296,940
Shares issued via private placement (Note 10c) iv))	12,800,000	$0.125	1,600,000
Shares issued via exercise of stock options	450,000	$0.12	54,000
Contributed surplus transferred on exercise of stock options			34,440
Shares issued pursuant to finder's fee (Note 10a)(i))	1,250,000	$0.15	187,500
Shares issued via exercise of warrants	650,000	$0.11	73,000
Contributed surplus transferred on exercise of warrants			25,310
Value attributed to warrants			(424,245)
Share issue costs			(22,875)
Share subscriptions collected			43,375
Share subscriptions receivable			(12,510)
Balance at December 31, 2016	**100,690,845**		**$44,854,935**
Shares issued via private placement (Note 10a)(ii))	18,068,160	$0.28	5,059,085
Shares issued via exercise of warrants	23,050,000	$0.10	2,305,000
Shares issued via exercise of warrants	2,161,880	$0.13	281,045
Shares issued via exercise of warrants	100,000	$0.18	18,000
Contributed surplus transferred on exercise of warrants			497,590
Shares issued via exercise of stock options	325,000	$0.112	36,500
Contributed surplus transferred on exercise of stock options			27,000
Share issue costs			(195,670)
Share subscriptions collected			56,000
Share subscriptions receivable			(43,500)
Balance at December 31, 2017	**144,395,885**		**$52,895,985**

(i) On September 23, 2016, the TSX Venture approved the Company's issuance of 1,250,000 common shares at a price of $0.15 per share pursuant to a finder's fee agreement with Industria Miral, SA de CV. for the provision of services that assisted the Company in obtaining a joint venture partner and bidding on licenses in Mexico.

(ii) On March 3, 2017, the Company closed a private placement for gross proceeds of $5,059,085, (net $4,911,340) which consisted of the issuance of 18,068,160 common shares at a price of $0.28 per common share. All shares issued under the brokered placement and non-brokered placement are subject to restrictions on resale expiring July 4, 2017.

10. Share Capital (continued)

b) Contributed Surplus

	December 31, 2017	December 31, 2016
Balance, beginning of year	**$ 12,482,395**	$ 11,870,515
Stock options granted	**90,625**	247,385
Exercise of stock options	**(27,000)**	(34,440)
Exercise of warrants	**(497,590)**	(25,310)
Value attributed to warrants	**-**	424,245
Balance, end of year	**$ 12,048,430**	$ 12,482,395

c) Share Purchase Warrants

	December 31, 2017 Number of Warrants	December 31, 2017 Amount	December 31, 2016 Number of Warrants	December 31, 2016 Amount
Balance, beginning of year (i), (ii)	**31,711,880**	**$ 886,250**	25,961,880	$ 487,315
Value attributed to extension of warrants (i), (ii)	-	**-**	**-**	23,050
Issued (iii)	-	**-**	-	-
Issued (i, iv)	-	-	6,400,000	401,195
Expired (iii)	**(200,000)**	**(6,870)**		
Exercised (i, ii, iii, iv)	**(25,311,880)**	**(490,720)**	(650,000)	(25,310)
Balance, end of year	**6,200,000**	**$ 388,660**	31,711,880	$ 886,250

December 31, 2017	Warrants Outstanding			Warrants Exercisable	
Exercise Price	Warrants Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Warrants Exercisable	Weighted Average Exercisable Price
$0.18	6,200,000	0.49	$ 0.18	6,200,000	$ 0.18

A summary of the above purchase warrants outstanding at December 31, 2017 is set out below:

Number	**Exercise price**	**Expiry date**
6,200,000	$ 0.18	June 29, 2018

10. Share Capital (continued)

c) Share Purchase Warrants (continued)

(i) On November 6, 2013, the Company completed a non-brokered private placement, consisting of the issue of 4,000,000 units at a price of $0.065 per unit for gross proceeds of $260,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.10 for a period of two years from the date of issuance. All units were purchased by Directors of the Company.

In November 2014, the Company granted a one-year extension of these warrants to November 16, 2016. In January 2016, the Company granted an extension of these warrants to December 2, 2017.

The weighted average fair market value of warrants granted in 2013 was $ 0.0346, and the weighted average fair market value of these warrants per extension was $0.01. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	January 2016, Extension
Risk-free interest rate	0.43%
Forfeiture rate	0.00%
Expected life of warrants	1 year
Volatility	81%

In 2017 the Company issued 3,250,000 common shares at $0.10 per share (2016 – 550,000 common shares at $0.10 per share) pursuant to the exercise of these share purchase warrants. At December 31, 2017 200,000 warrants expired.

(ii) On October 29, 2014, the Company completed a non-brokered private placement, consisting of the issue of 2,800,000 units at a price of $0.065 per unit for gross proceeds of $182,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.10 for a period of two years from the date of issuance. Directors of the Company purchased all of the units.

In January 2016, the Company granted an extension of these warrants to December 2, 2017.

The weighted average fair market value of warrants granted was $ 0.0201, and the weighted average fair market value of these warrants per extension was $0.01. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	January 2016, Extension
Risk-free interest rate	0.43%
Forfeiture rate	0.00%
Expected life of warrants	1 year
Volatility	81%

In 2017 the Company issued 2,800,000 common shares at $0.10 per share pursuant to the exercise of these share purchase warrants.

10. Share Capital (continued)

c) Share Purchase Warrants (continued)

(iii) On December 2, 2015, the Company completed a non-brokered private placement, consisting of the issue of 17,000,000 units at a price of $0.065 per unit for gross proceeds of $1,105,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.10 for a period of two years from the date of issuance.

In addition, due to an oversubscription of funds, the Company closed a second tranche of units consisting of 2,161,880 units at a price of $0.10 for gross proceeds of $216,188. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share at a price of $0.13 for a period of two years from the date of issuance.

The weighted average fair market value of warrants granted was $ 0.0135. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2015
Risk-free interest rate	0.62%
Forfeiture rate	0.00%
Expected life of warrants	2 years
Volatility	71.87%

In 2017 the Company issued 17,000,000 common shares at $0.10 per share and 2,161,880 common shares at $0.13 per share pursuant to the exercise of these share purchase warrants.

(iv) On June 29, 2016, the Company completed a non-brokered private placement, consisting of the issue of 12,800,000 units at a price of $0.125 per unit for gross proceeds of $1,600,000. Each Unit consists of one common share of the Company and one half common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of $0.18 for a period of two years from the date of issuance.

The weighted average fair market value of warrants granted was $ 0.0623. The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2016
Risk-free interest rate	0.48%
Forfeiture rate	0.00%
Expected life of warrants	2 years
Volatility	87.62%

In 2017 the Company issued 100,000 common shares at $0.18 per share (2016 - 100,000 common shares at $0.18 per share) pursuant to the exercise of these share purchase warrants .

10. Share Capital (continued)

d) Stock Options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Company. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2017, 13,786,500 common shares were reserved for issuance under the plan. Options granted under the plan vest within two years of the grant date and have a term of five years to expiry.

Outstanding and exercisable

	December 31, 2017			December 31, 2016		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	**9,236,500**	**$**	**0.12**	8,356,500	$	0.11
Granted	**4,875,000**		**0.22**	2,330,000	$	0.14
Expired	**-**		**-**	(1,000,000)	$	0.10
Exercised	**(325,000)**		**0.08**	(450,000)	$	0.12
Balance, end of year	**13,786,500**	**$**	**0.16**	9,236,500	$	0.12

December 31, 2017	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercisable Price
$0.10	3,481,500	1.55	$ 0.10	3,481,500	$ 0.10
$0.13 - $0.15	5,430,000	3.19	$ 0.14	5,430,000	
$0.22	4,875,000	4.93	$ 0.22	4,875,000	$ 0.22
	13,786,500	3.34	$ 0.16	13,786,500	$ 0.16

During the year ended December 31, 2017, the Company granted 4,875,000 options (December 31, 2016 - 2,330,000). Total compensation expense recorded in respect of these options was $90,625 (December 31, 2016 - $247,385). The weighted average fair market value of options granted in the period was $0.19 (2016 - $0.08) per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2017	December 31, 2016
Risk-free interest rate	1.77%	0.63%
Forfeiture rate	2.00%	2.00%
Expected life of options	5 years	5 years
Volatility	133.44%	96.77%
Dividend yield rate	0%	0%
Share price	$ 0.22	$ 0.15

11. Capital Disclosures

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2017, the Company's capital as defined above is as follows:

	December 31, 2017	December 31, 2016
Working capital balances included:		
Cash and cash equivalents	**$ 5,640,735**	$ 1,944,420
Restricted cash	**300,000**	300,000
Accounts receivable	**318,940**	194,610
Accounts payables and accrued liabilities	**(359,030)**	(357,900)
	$ 5,900,645	$ 2,081,130

The Company is in the business of oil and gas exploration in Mexico, the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada, and in north-west Montana in the United States. Management determines the Company's capital structure and makes adjustments to it based on funds available to the Company in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors has not established quantitative return on capital criteria for capital management but rather relies upon the expertise of the management team to sustain the future development of the business.

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any revenue. The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs. The Company will spend existing working capital and will seek additional financing as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential.

Historically, the Company has relied on proceeds from the sale of its common shares to fund its operations. In order to accelerate the Company's current exploration programs, the Company may require additional capital. The timing, pace, scope and amount of the Company's capital expenditures is largely dependent on the operators' capital expenditure programs and the availability of capital to the Company.

The Company may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional common shares, preferred shares or debt securities, project financing, sale of property interests, or other arrangements, all of which may dilute the interest of the Company's existing shareholders. In the current economic environment, there can be no assurances that the Company can raise capital through the sale of its shares.

12. Per share amounts

	2017	2016
Net loss from continuing operations	**$ (3,382,755)**	$ (3,055,880)
Weighted average number of shares	**118,259,892**	92,676,460
Basic loss per share from continuing operations	**$ (0.03)**	$ (0.03)
Net loss from discontinued operations	**$ -**	$ (196,250)
Weighted average number of shares	**-**	92,676,460
Basic loss per share from discontinued operations	**$** -	$ (0.00)
Net loss	**$ (3,382,755)**	$ (3,252,130)
Weighted average number of shares	**118,259,892**	92,676,460
Basic loss per share	**$ (0.03)**	$ (0.03)

The Company has dilutive instruments outstanding, which consist of stock options and warrants. The dilutive impact of these instruments using the treasury stock method results in anti-dilution as a result of the Company incurring losses during the years presented. As a result, diluted loss per share and the impact of these instruments on the weighted average number of shares outstanding is not presented in the financial statements.

13. Related party transactions

During 2017, the Company paid compensation to key executives as follows:

	2017	2016
Executive officers – salaries and consulting fees	**$ 671,000**	$ 846,950
Stock based compensation	**90,625**	74,845
Director's fees	**48,000**	-
Royalty incentive program	**4,060**	12,670
	$ 813,685	$ 934,465

At December 31, 2017, $12,000 (December 31, 2016 – $26,980) was included in accounts payable and accrued liabilities owing to related parties.

Also, included in accounts receivable at December 31, 2017 is $238,740 (December 31, 2016 - $164,810) representing amounts for reimbursement of overhead expenses owing from TE Corporation, in which the Company's 99.80% owned Mexican subsidiary, Frontera, has a 50% shareholding.

In 2017 costs of $4,060 (2016 - $12,670) were paid with respect to the Company's Royalty Incentive Plan. In April 2017 the Company terminated its Royalty Incentive Program and the participants of the program agreed to surrender and cancel any and all Royalty Units held.

The above transactions were incurred in the normal course of operations of the Company and have been recorded at the exchange amounts that were established and agreed upon by the related parties.

14. Segmented information

The Company's activities are conducted in two geographic segments: Canada (including USA) and Mexico. All activities relate to exploration for and development of petroleum and natural gas resources.

a) Net loss and comprehensive loss

Year ended December 31, 2017

	Canada	Mexico	Total
Expenses			
General and administration	$ 1,464,320	$ 32,680	$ 1,497,000
Pre-exploration costs	-	252,000	252,000
Depreciation	1,355	210	1,565
Impairment	1,489,415	-	1,489,415
Share based compensation	90,625	-	90,625
Gain on disposition of properties	(677,055)	-	(677,055)
Loss on equity investment	-	669,300	669,300
	2,368,660	954,190	3,322,850
Finance income and expenses			
Interest income	23,655	-	23,655
Foreign exchange loss	(62,140)	(21,420)	(83,560)
	(38,485)	(21,420)	(59,905)
Net loss and comprehensive loss	$ (2,407,145)	$ (975,610)	$ (3,382,755)

Year ended December 31, 2016

	Canada	Mexico	Total
Expenses			
General and administration	$ 1,256,785	$ 13,770	$ 1,270,555
Pre- exploration costs	21,380	237,240	258,620
Depletion and depreciation	31,550	430	31,980
Impairment	787,000	-	787,000
Finder's fee	187,500	-	187,500
Share based compensation	247,385	-	247,385
Loss on equity investment	-	258,435	258,435
	2,531,600	509,875	3,041,475
Finance income and expenses			
Interest income	15,030	-	15,030
Foreign exchange loss	(26,050)	(3,385)	(29,435)
	(11,020)	(3,385)	(14,405)
Net loss and comprehensive loss from continuing operations	(2,542,620)	(513,260)	(3,055,880)
Loss from discontinued operations	(196,250)	-	(196,250)
Net loss and comprehensive loss	$ (2,738,870)	$ (513,260)	$ (3,252,130)

14. Segmented information (continued)

b) Assets

Year ended December 31, 2017

	Canada	Mexico	Total
Capital expenditures	$ 100,940	$ -	$ 100,940

Year ended December 31, 2016

	Canada	Mexico	Total
Capital expenditures	$ 113,800	$ 785	$ 114,585

15. Investment in Associate

In 2017 the Company, through its Mexican subsidiary Petro Frontera S.A.P.I de CV (Frontera) has a 50% interest in a Mexican associated company TE Corporation. The investment is accounted for using the equity method.

The Company's investment in TE Corporation is as follows:

	December 31, 2017	December 31, 2016
Balance, beginning of year	**$ 365,780**	$ 139,785
Contributions	**1,597,450**	484,430
Share of losses for the year	**(669,300)**	(258,435)
Balance, end of year	**$ 1,293,930**	$ 365,780

The Company periodically assesses its investments to determine whether there is any indication of impairment. When there is an indication of impairment, An impairment loss in respect of an equity-method accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss and is reversed if there is a favorable change in the estimates used to determine the recoverable amount.

15. Investment in Associate (continued)

	December 31, 2017	December 31, 2016
Cash	$ 1,076,750	$ 698,390
Current assets	315,620	58,395
Non-current assets	1,996,270	66,335
Current liabilities	894,635	195,365

	December 31, 2017	December 31, 2016
Interest income	$ 27,990	$ -
Operating and administrative expenses	1,360,375	516,870
Depreciation	6,220	-
Total expenses	1,366,595	516,870
Loss and comprehensive operating loss	**$ (1,338,605)**	**$ (516,870)**

16. Commitments and contingencies

a) The Company has issued a letter of credit for its share of a refundable deposit on Northwest Territories exploration license. The letter of credit is secured by a total assignment of cash of $300,000 (December 31, 2016 – $300,000). The Company is contingently liable under the letter of credit for $300,000 (December 31, 2016 - $300,000). The deposit will be reduced by $1 for every $4 spent on qualified expenditures on the exploration license.

b) Effective December 1, 2016 the Company is party to an agreement to lease its new premises until June 29, 2019. The annual rent of the premises will consist of minimum rent plus occupancy costs. Minimum rent plus occupancy costs to the end of the lease is as follows:

2018	$ 49,000
2019	$ 25,000

16. Commitments and contingencies (continued)

c) On August 25, 2016, the Company's 50% owned Joint Venture met all of the terms and conditions and signed a license contract with the Mexico Comision Nacional de Hidrocarburos (CNH) for the Onshore Oil and Gas Development Block 24, Tecolutla, granting TE Corporation the right to develop and produce hydrocarbons. As required by the CNH, TE Corporation secured from a Mexican institution a US$1,764,100 performance bond toward the guarantee of performance of the minimum work programs. Upon completion of the minimum work program, the performance bond will be returned. TE Corporation is required to fulfil the Minimum Work Program by performing any combination of tasks to earn 4,600 Work Units. TE Corporation intends to drill one well to earn 4,000 Work Units and conduct a work-over and a combination of other activities, if required, to earn up to 600 Work Units to satisfy the Minimum work requirement under the License Contract. The Company's 50% share of these activities has been budgeted as CAD $2.6 million. In addition, In 2017, the Company announced the closing of an Account Performance Security Guarantee (APSG) facility of US $882,050 with Export Development Canada ("EDC"). The APSG facility ("Guarantee Facility") is provided as 50% of a performance bond issued by the Company's 50% owned joint venture company TE Corporation.

17. Supplemental cash flow information

Changes in non-cash working capital items from continuing operations increase (decrease) cash and cash equivalents as follows:

	2017	2016
Accounts receivable	**$ (124,330)**	$ 22,150
Prepaids and reclamation deposits	**(65,430)**	364,755
Accounts payable and accrued liabilities	**1,130**	(45,790)
	$ (188,630)	$ 341,115
Operating activities	**$ (188,630)**	$ 341,115
Investing activities	**-**	-
Financing activities	**-**	-
	$ (188,630)	$ 341,115
Taxes paid	**$ -**	$ -
Interest paid	**$ -**	$ -
Cash and cash equivalents are comprised of:		
Cash on hand - Canada	**$ 2,372,310**	$ 224,800
Cash on hand - Mexico	**$ 268,425**	$ 14,120
Short term bankers' acceptances (bearing interest rates ranging from 0.65% -1.10%)	**3,000,000**	1,705,500
	$ 5,640,735	$ 1,944,420
Non- cash transactions:		
Shares issued for finders' fee	**$ -**	$ 187,500
Fair value assigned to unit warrants	**$ -**	$ 424,425

18. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, restricted cash on deposit, accounts receivable, and accounts payable and accrued liabilities. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

a) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

Substantially all of the receivables with joint venture partners in the oil and gas industry are subject to normal industry credit risks. Management does not believe that there is significant credit risk arising from any of the Company's customers or partners, as substantially all amounts outstanding at December 31, 2017 have been received subsequent to year end. The maximum exposure to loss arising from accounts receivable at any given time is equal to their total carrying amounts on the balance sheet.

The following table presents the aging of the Company's accounts receivable at December 31, 2017

Total receivables:	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 318,940	$ 113,970	$ 65,630	$ 78,400	$ 60,940

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets. There are no material financial assets that are past due. During the year ended December 31, 2017, there was no allowance for doubtful accounts recorded, as all amounts outstanding at December 31, 2017 are deemed collectible.

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance account. At December 31, 2017, the Company's allowance for doubtful accounts balance was $Nil (December 31, 2016 – $Nil).

b) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2017, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year-end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate risk.

18. Financial Instruments (continued)

c) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company has financial instruments denominated in US dollars and Mexican pesos. The Company's management monitors the exchange rate fluctuations on a regular basis. The Company does not use currency derivative instruments to manage the Company's exposure to foreign currency fluctuations.

At December 31, 2017, the carrying amount of the Company's Mexican Pesos denominated net monetary assets was approximately $4,039,400 Pesos. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the Mexican Pesos at December 31, 2017 would have affected the value of such balances by approximately $39,995 CAD.

At December 31, 2017, the carrying amount of the Company's U.S. Dollar denominated monetary assets was approximately US $607,830. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the U.S. Dollar at December 31, 2017 would have affected the value of such balances by approximately $7,645 CAD.

d) Liquidity Risk

Liquidity risk includes the risk that:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete budgeted capital expenditures are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, opening cash and cash equivalents balance, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, and cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and access to equity markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

e) Fair value of financial instruments

The Company classifies the fair value of financial instruments at fair value through profit or loss according to the following hierarchy based on the amount of observable inputs used to value the instrument.

18. Financial Instruments (continued)

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. 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 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2017 and 2016 cash and cash equivalents and restricted cash on deposit have been classified as Level 1.