Emerald Bay Energy Inc.

Consolidated financial statements

For the Nine Months Ended September 30, 2017

(expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited Interim Consolidated Financial Statements for the three and ninemonth periods ended September 30, 2017 and 2016.

Emerald Bay Energy Inc.

Consolidated Statements of Financial Position

September 30, 2017 and December 31, 2016

	September 30, 2017	December 31, 2016
	$	$
Assets		
Current assets		
Cash and cash equivalents	**242,400**	180,642
Short-term investments	**374,400**	68,493
Trade and other receivables (note 16(b))	**270,604**	81,159
Prepaid expenses and deposits	**31,351**	26,189
Total current assets	**918,755**	356,483
Non-current assets		
Investment in PRI (note 4)	-	314,850
Investment in Partnership (note 6)	**442,311**	442,311
Exploration and evaluation assets and other intangible assets (note 7)	**5,058,729**	1,799,531
Property and equipment (note 5)	**2,485,463**	43,574
Total assets	**8,905,258**	2,956,749
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 16(c))	**5,304,885**	4,804,713
Shareholder indemnity (note 15(b))	**322,230**	332,388
Loan (note 9)	-	1,025,000
Convertible debt (note 10)	**376,000**	376,000
Demand loan (note 11)	**133,000**	123,000
Short-term loan (note 12)	**181,000**	314,262
Other liabilities (note 15(c))	**68,300**	51,600
Total current liabilities	**6,385,415**	7,026,963
Non-current liabilities		
Decommissioning obligations (note 8)	**1,146,166**	426,314
Long Term Debt note(13)	**10,790,187**	-
Other liabilities (note 15(c))	**1,130**	20,338
Total liabilities	**18,322,898**	7,473,615
Shareholders' deficit		
Share capital (note 14(b))	**12,887,636**	12,248,793
Warrants (note 14(c))	**182,796**	510,171
Contributed surplus	**1,886,474**	1,886,474
Share purchase loan (note 15(a))	**(247,970)**	(247,970)
Deficit	**(22,922,733)**	(19,154,265)
Non-controlling interest in PRI	**619,426**	-
Accumulated other comprehensive income	**(1,823,26951)**	239,931
Total shareholders' deficit	**(9,417,640)**	(4,516,866)
Total liabilities and shareholders' deficit	**8,905,258**	2,956,749

Reporting entity and going concern (note 1)
Commitments (note 16)

Approved on behalf of the Board of Directors

Signed "Shelby D. Beattie" — Director

Signed "Gibson C. Scott" — Director

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

Emerald Bay Energy Inc.

Consolidated Statements of Comprehensive Loss

For the three and nine month periods ended September 30, 2017 and 2016

	For the three months ended		For the nine months ended	
	September 30, 2017 $	September 30, 2016 $	**September 30, 2017 $**	September 30, 2016 $
Revenue				
Petroleum and natural gas revenue	**210,497**	3,274	**216,142**	8,242
Other revenue	**30,853**	-	**31,122**	-
Royalties	**5,208**	(203)	**4,751**	(646)
	246,558	3,071	**252,015**	7,596
Operating expenses				
Production and operating expenses	**146,609**	4,223	**148,973**	13,666
Depletion and depreciation (note 5)	**100,541**	2,755	**103,120**	13,682
General and administrative	**430,537**	210,540	**637,959**	386,829
Foreign exchange (gain)	**28,100**	(12,005)		(29,501)
	705,787	205,513	**890,052**	384,676
Results from operating activities	**(459,229)**	(202,442)	**(638,037)**	(377,080
Finance expense				
Interest expense	**(104,816)**	(49,074)	**(174,054)**	(145,065)
Recovery of accounts payable	**-**	819,870	**-**	819,870
Accretion of decommissioning obligations (note 8)	**(2,040)**	(859)	**(3,042)**	(2,579)
Accretion of other liabilities (note 16(c))	**(45)**	(240)	**(896)**	(13,787)
Net finance expense	**(106,901)**	769,697	**(177,992)**	658,439
Other income and expenses				
Other gains	**-**	-	**-**	-
Net other income and expenses	**-**	-	**-**	-
Net Income (loss)for the period	**(566,130)**	567,255	**(816,029)**	281,359
Other comprehensive loss				
Net (loss) gain on PRI acquisition (note 4)	**(169,177)**	-	**(169,177)**	-
Other gain (loss)	**5,607**	(28,231)	**8,390**	(94,154)
Noncontrolling interest in PRI	**(13,009**	-	**(13,009)**	-
Foreign currency translation adjustment	**-**	(15,625)	**-**	7,983
Total comprehensive Income (loss) for the period	**(742,709)**	523,399	**(989,825)**	195,188
Basic and fully diluted loss per share(note 14(e))	**(0.00)**	(0.00)	**(0.00)**	(0.00)
Weighted average number of common shares outstanding during the period	**230,610,189**	208,610,189	**230,610,189**	194,873,925

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

Emerald Bay Energy Inc.

Statements of Changes in Deficit

For the period ended September 30, 2017 and 2016

	Share capital $	Warrants $	Contributed surplus $	Share purchaseloan $	Deficit $	Accumulated other comprehensive loss $	Total deficit $
Balance, December 31, 2015	11,447,478	528,898	1,886,474	(247,970)	(18,084,385)	271,470	(4,198,035)
Proceeds received pursuant to private placements	348,101	651,899	-	-	-	-	1,000,000
Cash share issue costs	(6,061)	(11,351)	-	-	-	-	(17,412)
Loss for the period	-	-	-	-	(285,896)	-	(285,896)
Movement in available for sale assets	-	-	-	-	-	(65,923)	(65,923)
Foreign exchange translation to presentation currency	-	-	-	-	-	23,608	23,608
Balance, September 30, 2016	11,789,518	1,169,446	1,886,474	(247,970)	(18,370,281)	229,155	(3,543,658)
Balance, December 31, 2016	**12,248,793**	**510,171**	**1,886,474**	**(247,970)**	**(19,154,265)**	**239,931**	**(4,516,866)**
Shares issued	128,675	-	-	-	-	-	128,675
Warrants issued	-	182,793					182,793
Fair value of expired warrants	521,519	(521,519)	-	-	-	-	-
Issue costs for expired warrant	(11,351)	11,351	-	-	-	-	-
Loss for the period	-	-	-	-	(3,768,468)	-	(3,768,468)
Non-controlling interest in PRI	-	-	-	-	-	619,426	619,426
Accumulated Foreign Translation and other comprehensive items	-	-	-	-	-	(2,063,200)	(2,063,200)
Balance, September 30, 2017	**12,887,636**	**182,796**	**1,886,474**	**(247,970)**	**(22,922,733)**	**(1,203,843)**	**(9,417,640)**

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

Emerald Bay Energy Inc.

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016

	September 30, 2017	September 30, 2016
	$	$
Cash provided by (used in):		
Operating activities		
Net Income (loss) for the period	**(589,718)**	281,359
Adjustments for:		
Depletion and depreciation (note 5)	**103,120**	13,682
Accretion of decommissioning obligation (note 8)	**33,297**	2,579
Accretion of other liabilities (Note 16(c))	**896**	13,787
Recovery of Accounts payable	**-**	(819,870)
Gain on abandonment and reclamation (note 8)	**(8,390)**	-
Net loss on available for sale financial assets	**-**	94,154
Unrealized foreign exchange gain	**-**	(25,356
	(460,795	(439,665)
Change in trade and other receivables	**(183,104)**	49,646
Change in prepaid expenses and deposits	**(11,503)**	52,012
Change in accounts payable and accrued liabilities	**130,675**	(116,692)
Change in shareholder indemnity (note 16(b))	**-**	(8,008)
	(524,727)	(462,707)
Investing activities		
Property and equipment expenditures (note 5)	**(896)**	(15,546)
Exploration and evaluation expenditures (note 7)	**(128,017)**	(172,955)
Change in short-term investments	**(305,907)**	3,689
	(434,820)	(184,813)
Financing activities		
Share issue costs (note 14(b))	**311,471**	(17,412)
Receipt of debt (note 9, 10, 11,12, & 13)	**1,738**	327,065
Repayment of other liabilities (note 16(c))	**(8,600)**	(37,933)
	304,609	271,720
Foreign exchange on cash and cash equivalents	**716,696**	-
Change in cash and cash equivalents	**61,758**	(375,800)
Cash and cash equivalents, beginning of period	**180,642**	403,511
Cash and cash equivalents, end of period	**242,400**	27,711

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

1 Reporting entity and going concern

Emerald Bay Energy Inc. (the “Company”)was incorporated under the Business Corporations Act of Alberta on May 9, 1997 and is listed on the TSX Venture exchange. The Company is engaged in the exploration for and development of petroleum and natural gas properties, principally in Alberta, Canada and Texas, USA.The Company is listed on the TSX Venture exchange under the symbol “EBY.V”. The Company’s registered head office is located at #3A, 4015 – 1 Street South East, Calgary, Alberta, Canada T2G 4X7.

At September 30, 2017, the Company had not yet achieved profitable operations, had an accumulated deficit of $22,782,751 since its inception (December 31, 2016 - $19,154,265), had cash flows used in operations of $524,707 (December 31, 2016–$265,603) and had a working capital deficiency of $6,104,124 (December 31, 2016 - $6,670,480) (defined as current assets less current liabilities), and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future. Management is committed to raising additional capital to meet its exploration and operating obligation, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which are distressed, particularly for junior petroleum and natural gas companies. All of these factors, together with weak natural gas prices and the current unstable economic conditions, indicate the existence of material uncertainties related to events or conditions that may cast significant doubt as to whether the Company can continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications that would be necessary if the going concern assumption was not appropriate. Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

2 Basis of presentation

a) Statement of compliance:

The interim condensed consolidated financial statement have been prepared in accordance with International Accounting Standards ("IAS") 34 – *"Interim Financial Reporting"* as issued by the International Accounting Standards Board ("IASB") using the accounting policies and methods of computation disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2016. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and exclude certain disclosures required to be included in annual consolidated financial statements.

The Board of Directors approved the consolidated financial statements on November 29, 2017.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and available for sale financial investments which are measured at fair value, as explained in note 3 – Significant accounting policiesin the Company's audited consolidated financial statements for the year ended December 31, 2016.

c) Basis of consolidation:

These consolidated financial statementsincludetheaccounts ofthe Company and its United States branch, Emerald Bay Texas Inc., itswholly-owned and controlled subsidiary and Production Resources, Inc. (PRI) where the Company owns 75% of the outstanding shares. ControlexistswhentheCompanyhasthe powerover the investee, exposure or rights to variable returns from its involvement and has the ability to affect those returns through its power over the investee. Thefinancialstatements ofsubsidiaries, includingentities whichthe Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactionsand balances have beeneliminated.

d) Nature and purpose of equity and reserves:

The reserves recorded in equity on the Company's consolidatedstatement of financial position include 'contributed surplus', 'Accumulated other comprehensive loss', and 'Deficit'.

'Contributed surplus' is used to recognize the value of stock options and broker warrants prior to exercise.

'Accumulated other comprehensive loss' is the foreign exchange gain or loss resulting from the translation of the Corporation's foreign subsidiary.

'Deficit' is used to record the Corporation's change in deficit from profit or loss from year to year.

e) Use of estimates and judgments:

In preparing these interim condensed consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements as at and for the year ended December 31, 2016.

3 Recent accounting pronouncements

Certain pronouncements were issued by "IASB" or International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2018 or later periods.

The following new accounting standards, amendments to accounting standards and interpretations, have not been early adopted in these consolidated financial statements. The Company is currently assessing the impact, if any, of this new guidance on the Company's future results and financial position:

IFRS 9, "Financial Instruments": In July 2014, the IASB completed the final phase of its project to replace IAS 39, the current standard on the recognition and measurement of financial instruments. IFRS 9 is now the new standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 provides a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. Hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted; however, if an entity elects to apply this standard early, it must disclose that fact and apply all of the requirements in this standard at the same time. It is anticipated that the adoption of IFRS 9 willnot have a material impact on the Company's consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers:"IFRS 15 was issued in May 2014 and applies to contracts with customers, excluding, most notably, insurance and leasing contracts. IFRS 15 prescribes a framework in accounting for revenues from contracts within its scope, including (a) identifying the contract, (b) identify separate performance obligations in the contract, (c) determine the transaction price of the contract, (d) allocate the transaction price to the performance obligations and (e) recognize revenues when each performance obligation is satisfied. This standard comes into effect January 1, 2018 and is applied retrospectively. IFRS 15 also prescribes additional financial statement presentations and disclosures. The Company's evaluation of IFRS 15 is ongoing and not complete. The IASB has issued and may issue in the future, interpretative guidance, which may cause its evaluation to change. The Company does not currently believe IFRS 15 will have a material effect on its consolidated financial statements.

IFRS 16, "Leases": In January 2016, the IASB issued the standard to replace IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company does not currently believe IFRS 16 will have a material effect on its consolidated financial statements**.**

4 Equity investment in PRI

The investment in PRI as at December 31, 2016 is as follows:

	$
Net investment, December 31, 2015	**$343,049**
Fair value adjustment at December 31, 2016	(28,199)
Net investment, December 31, 2016	**$314,850**

As at December 31, 2016, the fair value of the investment in PRI was a Level 3 valuation of the fair value measurement hierarchy as the value been determined using unobservable inputs. Fair value is based on a present value technique involving expected cash flows and discount rates using assumptions that market participants would use when pricing such an investment. As the fair value of the investment relates to the fair value of the underlying operations of the investment, the present value of the investment is primarily based on the net present valuing of the cash flows from the proved and probable reserves at a discounted at market rate.

Effective July 1, 2017, the Company acquired 65% of the stock in PRI from to a party with a previous shareholding in PRI. The investment is accounted for using the acquisition method recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquire; and recognizing and measuring goodwill or a gain from a bargain purchase. The Company's interest in the share capital of PRI is increased to75%.

Fair Value PRI Acquisition	**2017**
Fair value of property, plant & equipment	**3,818,294**
Current Assets received	**391,212**
E&E Assets received	**1,154,828**
Other Fixed Assets received	**145,110**
Payables and accrued liabilities assumed	**(461,564)**
Loan assumed	**(2,680,480)**
Decommissioning Liability assumed	**(266,254)**
Fair Value estimate	**2,101,146**
Acquisition Cost	**2,241,128**
Gain (Loss) on Acquisition	**(139,982)**

5 Property and equipment

	Oil and natural gas interests	**Corporate and other**	**Total**
	$	**$**	**$**
Cost, December 31, 2016	**4,227,898**	**190,996**	**4,418,894**
Additions	4,189,797	881,145	5,070,942
Dispositions	-	-	-
Foreign currency translation	-	-	-
Cost, September 30, 2017	**8,417,695**	**1,072,141**	**9,489,836**
Accumulated depletion, depreciation and impairment, beginning of year	(4,196,828)	(178,492)	(4,375,320)
Depreciation and depletion for the period	(1,947,853)	(681,200)	(2,629,053)
Foreign currency translation	-	-	-
Carrying value, September 30, 2017	**2,273,014**	**212,449**	**2,485,463**

	Oil and natural gas interests	**Corporate and other**	**Total**
	$	**$**	**$**
Cost, December 31, 2015	**4,227,898**	**192,388**	**4,420,286**
Additions	-	15,914	15,914
Dispositions	-	(16,633)	(16,633)
Foreign currency translation	-	(673)	(673)
Cost, December 31, 2016	**4,227,898**	**190,996**	**4,418,894**
Accumulated depletion, depreciation and impairment, beginning of year	(4,192,339)	(167,087)	(4,359,426)
Depreciation and depletion for the year	(4,489)	(12,038)	(16,527)
Foreign currency translation	-	633	633
Carrying value, December 31, 2016	**31,070**	**12,504**	**43,574**

Effective July 1, 2017 the Company acquired controlling interest in PRI which included $4,189,797 in oil and gas assets and $881,145 in corporate and other assets based on historical costs recorded by PRI. Related accumulated depletion and depreciation were recorded based on results from the PRI acquisition.

The Company closed a transaction whereby it acquired 2 non-operated working and net profit interest in 13 producing Cardium oil and gas wells near Edson Alberta for aggregate proceeds of $275,000.

Fair Value Cardium Acquisition	**2017**
Acquisition Cost	**275,000**
Fair Value estimate	**275,000**
Gain on Acquisition	**-**

6 Investment in Partnership

Horseshoe LP is a privately held partnership with no active public market and no observable outputs as the partnership only recently began operating and has no extensive history of activity. The Company assessed the value of its initial partnership purchase of $442,311 using the price at which third parties were willing to purchase a partnership interest. For subsequent quarterly and annual reporting, unless additional partnership units are sold to a third party, the Company determines the fair value of its investment in Horseshoe based on the costs incurred as there is insufficient recent information available to measure fair value. During the year ended December 31, 2016 and thenine months ended September 30, 2017, additional shares in the Partnership were sold to third parties for cash, and the price per share reflected the existing fair value of units held by the Company.There have been no indicators to suggest that the unit issuance by the Partnership is not representative of fair value.

The investment in Partnership as at September 30, 2017 is as follows:

Net investment, December 31, 2015	**$442,311**
Fair value adjustment	-
Net investment, December 31, 2016, and September 30, 2017	**$442,311**

7 Exploration and evaluation assets

	E&E assets
	$
Balance, December 31, 2015	**1,940,471**
Additions	220,564
Revisions in decommissioning liability	7,002
Impairment	(306,159)
Foreign currency translation	(62,347)
Balance, December 31, 2016	**1,799,531**
Additions	3,286,328
Revisions in decommissioning liability	33,297
Foreign currency translation	(60,427)
Balance, September 30, 2017	**5,058,729**

E&E assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. As at September 30, 2017, the Company incurred an amount of $3,286,328 on E&E expenditures (December 31, 2016 - $220,564). The additions represent the acquisition of undeveloped land and drilling activity within Texas. These E&E assets will be transferred to property and equipment when technical feasibility and commercial viability have been established. The E&E asset impairment was $306,159 for the year ended December 31, 2016. The impairment was recognized upon a review of each exploration license or field, carried out, at least annually, to confirm whether the Company intends further appraisal activity or to otherwise extract value from the property. There were no indicators of additional impairment at September 30, 2017.

Effective July 1, 2017 the Company acquired controlling interest in PRI which included $1,523,912 in E&E assets based on historical costs recorded by PRI included in the acquisition line above.

The Company closed a transaction whereby it increased its interest in the Wooden Horse and Nash Creek projects in Guadalupe County, Texas from 27.8% to 50%, for aggregate proceeds of $1,270,195 USD ($1,689,359 CDN) included in the acquisition line above.

Fair Value Wooden Horse Acquisition	**2017**
Acquisition Cost	**1,689,359**
Fair Value estimate	**1,689,359**
Gain on Acquisition	-

8 Decommissioning obligations

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation 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. The Company has estimated the net present value of the decommissioning obligations to be $1,146,166 as at September 30, 2017 (December 31, 2016 - $426,314) based on an undiscounted total future liability of $1,146,166(December 31, 2016 - $447,124). These payments are expected to be made over the next 2 to 24 years. The obligations have been calculated using an inflation rate of 2% and a discount factor, being the risk-free rate related to the liability, of 1.10% - 2.07% (December 31, 2016– 2% and 0.73% - 2.21%, respectively).

	September 30, 2017	December 31, 2016
	$	$
Balance, beginning of period	**426,314**	446,649
Liabilities incurred	722,107	16,626
Abandonments	-	(28,895)
Revisions / changes in estimates	(2,963)	(9,624)
Accretion	3,042	3,438
Foreign currency translation	(2,334)	(1,880)
Balance, end of period	**1,146,166**	426,314

During the yearended December 31, 2016, the Orphan Well Society abandoned and reclaimed certain wells owned by the Company. As a result, the Company derecognized decommissioning obligation of$28,895and recorded it as a gain in the Company's consolidatedstatement of comprehensive loss.

Effective July 1, 2017 the Company acquired controlling interest in PRI which included $709,110 in decommissioning liabilities. During the quarter, the Company acquired a working interest in two oil & gas wells in the Edson area Alberta which included decommissioning liability of $11,531.

9 Loan

On September 15, 2012, a corporation owned by a party who has a common significant shareholding (the "Lender") advanced $1,500,000 to the Company under a loan agreement with a maturity date of August 15, 2013, which was later extended August 15, 2014, with the same terms and conditions (the "Loan"). Interest on the Loan is 10% per annum, payable monthly, on the outstanding principal amount.

Pursuant to the Loan agreement, the Company issued to the Lender 5,000,000 share purchase warrants (the "Warrants"). Each Warrant was exercisable into one common share of the Company at a price of $0.05 per common share until the expiry date of August 15, 2014. On April 9, 2014, the Warrants received regulatory approval and accordingly were valued as of this date at $40,241and were treated as a transaction cost, and were netted against the principal balance of the loan, whichwas accreted back up to the principal balance at the maturity date. The accretion of the Warrants was recorded as a non-cash finance expense in the consolidated statement of comprehensive loss. On August 15, 2014, the Warrants expired unexercised.

On October 2, 2014, the Company received approval to extend the maturity date of the Loan until August 15, 2015, with a 10% interest rate on the outstanding principal amount (the "Extension"). Pursuant to the Extension, no warrants were offered, however a conversion feature enabling the Lender to convert any or all of the outstanding Extension into common shares of the Company at a conversion price of $0.05 per common share at any time prior to August 15, 2015, subject to regulatory approval. On April 17, 2015, the conversion feature on the extension received regulatory approval and accordingly, on the issuance and extension, the loan was split between the liability and the conversion feature, which was recorded on the consolidated statement of financial position within equity. The liability portion was determined by subtracting the fair value of the conversion feature from the principal amount of the loan. The liability portion was measured at amortized cost and was accreted up to the principal balance at the maturity date. The accretion was expensed as a finance expense in the consolidated statement of comprehensive loss as finance expense. On August 15, 2015, the conversion feature expired unexercised.All other terms and conditions of the Extension remain unchanged.During the year ended December 31, 2015, and the nine months ended September 30, 2017, the Lender advanced an additional $225,000 and $75,000, respectively, to the Company under the same terms as the Loan. However, the additional advances were not included in the conversion feature.

The Company may, at any time, repay the Extension in full without notice or penalty. If the Company is in default of the requirements included in the Extension agreement or the Lender believes the Company's ability to repay the loan is impaired, the Lender may demand repayment of the Extension or accelerate the date for payment. During the nine months ended September 30, 2017, the Company incurred interest of $51,875 (December 31, 2016 - $102,492). This loan was extinguished with proceeds from the credit facility (note 13).

The following table summarizes the accounting of the Loan:

	$
Balance, December 31, 2016	**1,025,000**
Receipt of additional funds	75,000
Payoff	-1,100,000
Balance, September 30, 2017	**-**

10 Convertible debt

On January 1, 2012, the Company entered into a loan agreement (the “Loan Agreement”) with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the “Lender”) whereby the Company received a $150,000 USD ($204,000 CAD) loan with a maturity date of one year (the “Original Loan”). Pursuant to the Loan Agreement, if it is mutually agreed upon by both parties, the maturity date can be extended by an additional year. During the nine months ended September 30, 2016, and the years ended December 31, 2015 and 2014, the Lender advanced an additional loan amount of$50,000, $75,000and $100,000 (the “Advances”), respectively, to the Company under the same terms as the Original Loan. At each maturity date, the Company and the Lender mutually agreed to extend the Original Loan and the Loan advances by an additional year. As at September 30, 2017, the Company has not received demand from the Lender for repayment, and the Company is currently negotiating an extension of the short-term loan with the Lenders. Interest on the loan is 12% per annum, payable monthly, on the outstanding principal amount. Security for the loan consists of a $150,000 promissory note and monthly production from certain Texas assets equivalent to the principal portion of the loan and any unpaid interest.

At the option of the Lender, and subject to regulatory approval, the entire principal amount of the Original Loan, or any portion outstanding, may have been converted to shares in the Company with a discount of 25% to the market trading price at the time of conversion, at any time during the term. The conversion feature was to be treated consistently with the conversion feature included on the Loan (note 9). The conversion feature on the Original Loan expired unexercised on December 31, 2014 and the conversion features on the Advances did not receive regulatory approval before the conversion features expired.

The modifications did not result in an extinguishment of the old convertible debt instrument and recognition of a new convertible debt instrument. The proceeds of the loan were used to continue the Company’s exploration program in Texas.During the nine months ended September 30, 2017, the Company incurred interest of $29,770 (December 31, 2016 - $48,632) on the aggregate amount owing under the convertible debt.

11 Demand loan

On May 12, 2015, the Company entered into a loan agreement (the “Demand Loan”) with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the “Lender”) for up to an amount of $150,000. The proceeds of the Demand Loan were used for the continued operation of the Company. The Demand Loan is due on the demand of the Lender and bears interest of 8.00% per annum, compounded monthly. At

September 30, 2017, the Company has drawn $133,000 against the Demand Loan (December 31, 2016 - $123,000) and during the nine months ended September 30, 2017 has incurred interest of $5,428 (December 31, 2016 - $15,299). The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

12 Short-term loan

During the year ended December 31, 2016, the Company received a short-term loan (the "Short-term Loan") from the Lenders associated with the Loan (note 9) and the Convertible debt (note 10), collectively, the Lenders (the "Lenders") in the maximum available amount of $350,000. A set-up fee of $6,000 was charged by the Lenders, and is included in general and administrative expenses. Interest on the Short-term Loan is 10% per annum, compounded monthly. The Short-term Loan matured December 1, 2016. The proceeds of the Short-term Loan were to provide capital for on-going operational and administrative costs of the Company. The Company may re-pay some or all of the outstanding balance of Short-term Loan without notice or penalty.

As security for the total Short-term Loan, if the Short-term Loan is not repaid by the maturity date, at the option of the Lenders (the "Option"), the Lenders may acquire the 10% equity investment in PRI (note 4). If the option is exercised by the Lenders, the Lenders have granted the Company the ability to re-acquire the 10% equity investment in PRI for a period of 9 months from Option exercise date insofar as the Short-term Loan is fully repaid.During the quarter part of the short term debt was repaid with proceeds from the credit facility (note 13).

At September 30, 2017, the total amount outstanding under the Short-term Loan is$0(December 31, 2016 - $314,262), and during the nine months ended September 30, 2017 incurred interest of$26,843 (December 31, 2016 - $15,366).

13 Long Term Debt

The Company closed a loan agreement (the "Loan Agreement") with a private company (the "Lender"), whereby the Lender issued to the Company a credit facility with the ability to borrow up to $6,225,000 (the "Credit Facility"). The Credit Facility will have an interest free period until October 1, 2017, at which point the Credit Facility will bear interest at a rate equal to Prime Rate plus 1.5% per annum. The Credit Facility is payable upon demand by the Lender, and is secured over all of the assets of the Company. The Credit Facility will be used to repay the Loan (note 9) and the part of the Short-term debt (note 12), with the balance being used for acquisitions of oil and gas interests in South Texas and Alberta.

Long Term debt includes $6,193,083 advanced from the credit facility and $4,597,104 in debt assumed in the PRI acquisition.

14 Share Capital

a) Authorized

Unlimited number of common shares with voting rights
Unlimited number of preferred shares, issuable in series

b) Issued

	Number of Common Shares	Amount $
Balance, December 31, 2015	**158,610,189**	**11,447,478**
Private placement (i)	40,000,000	800,000
Value of warrants issued pursuant to private placement (i)	-	(521,519)
Share issue costs (i)	-	(6,061)
Expiry of warrants (note 13(c))	-	632,428
Share issuance costs for expired warrants	-	(103,533)
Balance, December 31, 2016	**198,610,189**	**12,248,793**
Value of warrants issued pursuant to private placement (ii)	-	(187,802)
Value of warrants issued pursuant to private placement (i)		521,519
Share issue costs (i)		(11,351)
Share issue costs (ii)	-	(3,524)
Shares issued pursuant to private placement (ii)	32,000,000	320,000
Balance, September 30, 2017	**230,610,189**	**12,887,638**

(i) On February 19, 2016, the Company completed a private placement (the "Private Placement"), issuing 50,000,000 units (the "Unit). Each Unit was issued at $0.02 for total proceeds of $1,000,000, and consists of one common share of the Company and one share purchase warrant (the "Warrant"). As at December 31, 2016, the Company had not collected $200,000 of the proceeds pursuant to the Private Placement. The amount was determined to be uncollectible and 10,000,000 Units were returned to treasury. Each Warrant entitled the holder to purchase one additional common share of the Company at $0.05 per share, exercisable for 1 year from the original issue date. The Company allocated $521,519 of the unit value to warrants (note 13(c)).Pursuant to the Private Placement, the Company incurred $17,412 in cash share issue costs, of which $6,061 was allocated to share capital and $11,351 was allocated to warrants. During the nine months ended September 30, 2017, the Warrants expired unexcercised.

(ii) On August 23, 2017, the Company completed a private placement (the "Private Placement"), issuing 32,000,000 units (the "Unit). Each Unit was issued at $0.01 for total proceeds of $320,000, and consists of one common share of the Company and one share purchase warrant (the "Warrant"). As at September 30, 2017, the Company had not collected $17,500 of the proceeds pursuant to the Private Placement. The amount was determined to be collectible. Each Warrant entitled the holder to purchase one additional common share of the Company at $0.05 per share, exercisable for 1 year from the original issue date. The Company allocated $187,802 of the unit value to warrants (note 13(c)).Pursuant to the Private Placement, the Company incurred $8,530 in cash share issue costs, of which $3,524 was allocated to share capital and $5,006 was allocated to warrants.

c) Warrants

Warrants to acquire common shares outstanding at September 30, 2017are as follows:

	Number of warrants issued and exercisable	Amount $	Weighted average exercise price $	Weighted average Remaining life (years)
Balance, December 31, 2015	**14,938,500**	**528,898**	**0.05**	**0.65**
Expiry of share purchase warrants	(14,938,500)	(632,428)	-	-
Share issuance costs for expired warrants	-	103,533	-	-
Share purchase warrants issued (note 13(b)(i))	40,000,000	521,519	0.05	0.14
Share issue costs (note 13(b)(i))	-	(11,351)	-	-
Balance, December 31, 2016	**40,000,000**	**510,171**	**0.05**	**0.14**
Expiry of share purchase warrants	(40,000,000)	(521,519)	-	-
Share issuance costs for expired warrants	-	11,351	-	-
Share issue costs (note 13(b)(ii))		5,006		
Share purchase warrant issued (note 13(b)(ii))	32,000,000	177,787	0.05	2.0
Balance, September 30, 2017	**32,000,000**	**182,796**	**-**	**-**

The fair value of the share purchase warrants granted during the year are estimated at the grant date using the Black-Scholes option pricing model and have been credited to warrants within shareholders' deficit. A weighted average of the assumptions used in the calculation is noted below:

	2017
Risk-free rate	**1.24%**
Expected life	**1 year**
Expected volatility	**250%**
Fair value per warrant	**$0.0058**

Volatility was determined based on the Company's historical share prices.

d) Stock options

The Company established a share option plan (the "Plan") for the benefit of officers, directors, employeesand consultants of the Company. Under the Plan, the number of common shares to be reserved and authorized for issuance pursuant to options granted under the Plan cannot exceed 10% of the total number of issued and outstanding shares of the Company. The term, the vesting period and the exercise price are determined at the discretion of the Board of Directors. However, the maximum option term shall not exceed five years.

During the year nine months ended September 30, 2017, there were no stock options granted, cancelled, exercised, or stock options that expired unexercised. The following table summarizes information about the Company's stock options outstanding atSeptember 30, 2017:

	September 30, 2017		December 31, 2016	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Stock options, beginning of period	**6,700,000**	**0.05**	11,625,000	0.07
Expired	-	-	(4,925,000)	-
Stock options outstanding, end of period	**6,700,000**	**0.05**	6,700,000	0.05

The total stock options outstanding at September 30, 2017are as follows:

Exercise price ($)	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price ($)
0.05	6,700,000	1.05	0.05

As at September 30, 2017, all stock options have vested and are exercisable.

During the three and nine months ended September 30, 2017 and 2016, the Company did not recognized any share-based payment expense.

e) Per share data

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share. Under this method, it is assumed that proceeds from the exercise of dilutive securities are used by the Company to repurchase Company shares at the average price during the year.

All stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive due to the loss position of the Company.

15 Related party transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

a) The following amounts are due from related parties:

During the year ended December 31, 1999, a promissory note was issued to an officer of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended December 31, 2014, the Company revised the terms of the loan (the "Revised Promissory Note"), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount payable (December 31, 2013 – fair value allowance $240,789). Under the Revised Promissory Note, a balance of $247,970, including the principal of $218,500 and accrued interest, is payable by the officer to the Company. The payments were to commence on December 31, 2015, and be paid annually in $50,000 tranches until December 31, 2018, with the final payment of $47,970 due on December 31, 2019. Interest is calculated at 1% per annum, and is payable annually commencing December 31, 2015, concurrently with each principal payment. The officer may repay the principal amount in whole or in part at any time. As at September 30, 2017, the officer had not yet paid the initial instalment or the second instalment, and the terms of the payments has been extended to begin on December 31, 2017.The terms of the loan agreement do not provide the Company with recourse to ensure repayment. Thus, the share purchase loan has been presented as a deduction from equity.

b) Additional related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

(i) Included in accounts payable at September 30, 2017 was $359,943owing to officers of the Company (December 31, 2016 - $352,412).

Key management compensation

During the nine months ended September 30, 2017, $360,304 (December 31, 2016 - $367,023) in management compensation was incurred.$275,566 was charged to the consolidated statement of comprehensive loss and $84,738was capitalized to property and equipment in the consolidated statement of financial position.

16 Commitments

a) On March 5, 2014, the Company entered into a lease agreement with a related party for the lease of office space. Under a lease agreement, the Company committed to monthly payments of $2,771 for the lease of its office space until November 30, 2016.On December 1, 2016, the Company agreed to continue paying $2,771 on a month to month basis.

b) The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend $824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability on the amount of $316,001 at September 30, 2017 (December 31, 2016 - $332,388). The Company has also estimated a potential liability for penalties and taxes in the amounts of $107,500 (December 31, 2016 - $107,500) and is included in accounts payable and accrued liabilities. The accrued amount is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.

c) During the year ended December 31, 2015, the Company settled a contingent liability totaling $145,512 with a third party who performed oil field services for the Company. The obligation is secured by a take in kind revenue arrangement from one of its gas wells to and in favor of the third party in case of default. The settlement was fair valued at $107,912 using Level II valuation techniques with a discount rate of 25%. The Company is required to make35 monthly payments of $4,300 starting July 1, 2015 to May 1, 2018 and final installmentof $3,800to be paid on September 1, 2018.During the nine months ended September 30, 2017, the Company has made 2additional payments of $4,300 (during the year ended December 31, 2016 - $34,271).

17 Financial risk management

The Board of Directors oversees management’s establishment and execution of the Company’s risk management framework. Management has implemented and monitors compliance with risk management policies. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities.

a) Fair values

The Company's financial instruments consist of cash and cash equivalents, short-term investments, available for sale investments,trade and other receivables, accounts payable and accrued liabilities, the shareholder indemnity, the loan, the convertible debt and the demand loan.

At September 30, 2017, the Company's cash and cash equivalents and short-term investmentshave been subject to Level I valuation.The investment in the Partnership is level II.

b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint interestpartners and oil and natural gas marketers.

Virtually all of the Company's trade and other receivables are from companies in the oil and gas industry and are subject to normal industry credit risks. Credit risks arise principally from the amounts owing to the Company from oil and natural gas marketers and joint interestpartners. Management does not believe that any significant concentration of trade and other receivables exists that will result in any loss to the Company based on past payment experience. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with large marketers. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations and escalating costs. The Company does not typically obtain collateral from oil and natural gas marketers or others in the event of non-payment.

As at September 30, 2017, a provision for doubtful accounts of $48,964hasbeen recorded by the Company (December 31, 2016 - $48,964). During the year ended December 31, 2016, the Company recovered $52,869 of previously written off trade and other receivables.

Cash and cash equivalents consist of cash bank balances held in both interest and non-interest bearing accounts. The Company manages credit exposure of cash by selecting financial institutions with high credit ratings.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2017, the Company's maximum exposure to liquidity risk is the total current liabilities of $7,022,879 (December 31, 2016 - $7,026,963).

18 Segmented information

The Company's primary operations are limited to a single industry being the acquisition, exploration for and development of petroleum and natural gas.

Product segmentation is as follows:

Revenue	Oil	Natural Gas	NGL's	Total
September 30, 2017 ($)	191,630	18,337	2,644	212,611
September 30, 2016 ($)		4,968	-	4,968

Geographical segmentation is as follows:

	Three months ended September 30, 2017 ($)		
	Canada	United States	Total
Petroleum and natural gas sales	12,288	190,207	202,495
Depletion, depreciation and impairment	-	98,353	98,353
Net loss	297,751	154,655	452,406
Property and equipment	(28,639)	2,474,764	2,446,125
Exploration and evaluation assets	-	3,146,442	3,146,442
Investment in Partnership	221,156	221,155	442,311
Total liabilities	5,009,537	5,532,170	10,541,707

	Three months ended September 30, 2016 ($)		
	Canada	United States	Total
Petroleum and natural gas sales	3,274	-	3,274
Depletion, depreciation and impairment	1,589	1,166	2,755
Net income (loss)	602,560	(35,305)	567,255
Property and equipment	40,874	21,693	62,567
Exploration and evaluation assets	-	2,027,777	2,027,777
Share of investment in PRI	154,395	154,396	308,791
Investment in Partnership	-	-	-
Total liabilities	3,768,140	2,438,652	6,206,792

	Nine months ended September 30, 2017 ($)		
	Canada	United States	Total
Petroleum and natural gas sales	22,404	190,207	212,611
Depletion, depreciation and impairment	4,177	98,943	103,120
Net loss	609,660	227,174	836,834
Property and equipment	7,038	2,478,425	2,485,463
Exploration and evaluation assets	-	5,058,729	5,058,729
Investment in Partnership	221,156	221,155	442,311
Total liabilities	10,060,203	8,262,695	18,322,898

	Nine months ended September 30, 2016 ($)		
	Canada	**United States**	**Total**
Petroleum and natural gas sales	8,242	-	8,242
Depletion, depreciation and impairment	10,140	3,542	13,682
Net income (loss)	315,582	(34,223)	281,359
Property and equipment	40,874	21,693	62,567
Exploration and evaluation assets	-	2,027,777	2,027,777
Share of investment in PRI	154,395	154,396	308,791
Investment in Partnership	-	-	-
Total liabilities	3,768,140	2,438,652	6,206,792