CANUC RESOURCES CORPORATION

Consolidated Financial Statements

December 31, 2016 and 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Canuc Resources Corporation (the "Company" or "Canuc") are the responsibility of management. The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the years presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)

"Christopher J. Berlet"

Christopher J. Berlet
Chief Executive Officer

(signed)

"Julio DiGirolamo"

Julio DiGirolamo
Chief Financial Officer

Toronto, Canada
April 27, 2017

Independent Auditors' Report

To the Shareholders of Canuc Resources Corp.:
We have audited the accompanying consolidated financial statements of Canuc Resources Corp., which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' (deficiency) equity and cash flows for the year then ended, and 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 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 the auditors' 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, the auditor considers 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 financial position of Canuc Resources Corp. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements, which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Canuc Resource Corp.'s ability to continue as a going concern.

Other Matter
The comparative figures as at December 31, 2015 and for the year then ended were audited by another firm of Chartered Professional Accountants who expressed an unqualified opinion on those statements in their audit report dated April 26, 2016.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 27, 2017 — Licensed Public Accountants

MNP

CANUC RESOURCES CORPORATION

Consolidated Statements of Financial Position

Expressed in Canadian dollars

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash	**$ 4,395**	$ 41,072
Accounts receivable *(note 12)*	**6,631**	54,303
Prepaid expenses and deposits	**1,214**	7,287
	12,240	102,662
Oil and gas interests *(note 7)*	**205,588**	201,812
	$ 217,828	$ 304,474
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *(note 12)*	**$ 537,009**	$ 170,181
Deferred Charges (*note 14)*	**7,735**	---
	544,744	170,181
Shareholders' equity		
Share capital *(note 9)*	**54,151,599**	54,132,689
Shares to be issued	**---**	7,000
Warrants *(note 9)*	**15,750**	15,750
Contributed surplus	**2,943,649**	2,913,359
Cumulative translation reserve	**99,530**	101,541
Deficit	**(57,537,444)**	(57,036,046)
	(326,916)	134,293
	$ 217,828	$ 304,474

Going Concern and Commitments (*notes 1 and 14*)

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

On behalf of the Board,

"Signed" Hubert Mockler
Hubert Mockler
Director

"Signed" Chris Berlet
Chris Berlet
Director

CANUC RESOURCES CORPORATION

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31, 2016 and 2015

Expressed in Canadian dollars

	2016	2015
Sales of Petroleum Products		
Sales	**$ 111,403**	$ 248,618
Less: Landowner royalties	**---**	14,927
	111,403	233,691
Operating costs	**58,726**	145,964
Depletion (*Note 6*)	**---**	69,058
	58,726	215,022
	$ 52,677	$ 18,669
Expenses		
Management fees *(Note 12)*	**172,142**	102,837
Evaluation expenses	**(16,785)**	372
Office and general costs	**44,867**	39,691
Professional fees	**294,608**	64,331
Interest expense	**32**	40
Shareholder and investor relations	**27,436**	37,680
Stock-based compensation	**36,200**	35,200
Foreign exchange	**6,175**	(27,510)
Gain on settlement of debt *(Note 12)*	**(10,600)**	(36,000)
Write-down of oil and gas interests *(Note 7)*	**---**	364,391
Write-down of oil and gas property *(Note 6)*	**---**	205,340
	554,075	786,372
Operating loss before income taxes	**(501,398)**	(767,703)
Provision for income taxes *(Note 15)*	**---**	---
Net loss	**$ (501,398)**	$ (767,703)
Other Comprehensive Loss:		
Currency translation differences	**(2,011)**	101,541
Comprehensive loss	**$ (503,409)**	$ (666,162)
Basic and diluted loss per common share *(Note 17)*	**$ (0.05)**	$ (0.09)
Weighted average number of shares outstanding during the year - basic and diluted *(Note 13)*	**10,137,984**	7,328,179

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

CANUC RESOURCES CORPORATION

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2016 and 2015

Expressed in Canadian dollars

	Share Capital	Shares to be issued	Warrants	Contributed Surplus	Cumulative Translation Reserve	Deficit	Total
Balance at December 31, 2014	**$53,959,698**	**$ ---**	**$ 55,750**	**$ 2,838,159**	**$ ---**	**$(56,268,343)**	**$ 585,264**
Net loss for the year	---	---	---	---	---	(767,703)	(767,703)
Other comprehensive income	---	---	---	---	101,541	---	101,541
Expiration of warrants	---	---	(40,000)	40,000	---	---	---
Stock-based payments	---	---	---	35,200	---	---	35,200
Issue of share capital – debt settlement	24,000	---	---	---	---	---	24,000
Issue of share capital – private placement	153,000	---	---	---	---	---	153,000
Shares to be issued – private placement	---	7,000	---	---	---	---	7,000
Share issue costs	(4,009)	---	---	---	---	---	(4,009)
Balance at December 31, 2015	**$54,132,689**	**$ 7,000**	**$ 15,750**	**$ 2,913,359**	**$ 101,541**	**$(57,036,046)**	**$ 134,293**
Net loss for the year	**---**	**---**	**---**	**---**	**---**	**(501,398)**	**(501,398)**
Other comprehensive loss	**---**	**---**	**---**	**---**	**(2,011)**	**---**	**(2,011)**
Stock-based payments	**---**	**---**	**---**	**36,200**	**---**	**---**	**36,200**
Issue of share capital – private placement	**7,000**	**(7,000)**	**---**	**---**	**---**	**---**	**---**
Exercise of options - cash	**6,000**	**---**	**---**	**---**	**---**	**---**	**6,000**
Exercise of options – book value	**5,910**	**---**	**---**	**(5,910)**		**---**	**---**
Balance at December 31, 2016	**$54,151,599**	**$ ---**	**$ 15,750**	**$ 2,943,649**	**$ 99,530**	**$(57,537,444)**	**$(326,916)**

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

CANUC RESOURCES CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

Expressed in Canadian dollars

	2016	2015
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss, including discontinued operations	**$ (501,398)**	$ (767,703)
Items not affecting cash:		
Depreciation, depletion and impairment *(Notes 6 and 7)*	**---**	69,058
Write-down of oil and gas interests *(Note 7)*	**---**	364,391
Write-down of oil and gas property *(Note 6)*	**---**	205,340
Gain on settlement of loan payable *(Note 8)*	**---**	(36,000)
Share based compensation	**36,200**	35,200
Net change in non-cash working capital balances:		
Accounts receivable	**46,755**	39,279
Prepaid expenses and deposits	**6,073**	10,578
Accounts payable and accrued liabilities	**366,828**	(17,045)
Deferred charges	**7,735**	---
	(37,807)	(96,902)
INVESTING ACTIVITIES		
Acquisition of oil and gas properties (*Note 7*)	**(9,671)**	(31,522)
	(9,671)	(31,522)
FINANCING ACTIVITIES		
Issuance of common shares	**6,000**	153,000
Common shares to be issued	**---**	7,000
Share issue costs	**---**	(4,009)
	6,000	153,991
Impact of foreign exchange on cash	**4,801**	1,766
Net increase (decrease) in cash	**(36,677)**	29,333
Cash, beginning of the year	**41,072**	11,739
Cash, end of the year	**$ 4,395**	$ 41,072

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

1. Nature of Operation and Going Concern

Canuc Resources Corporation (the "**Company**" or "**Canuc**") is the corporation resulting from the amalgamation, under the laws of the Province of Ontario, of Canuc Resources Corporation and Nova Beaucage Resources Limited pursuant to Articles of Amalgamation dated January 1, 1997. The Company was originally incorporated under the laws of the Province of Ontario by Letters Patent dated November 3, 1956. By Articles of Amendment dated June 12, 1996, the name of the Company was changed from Canuc Resources Inc. to Canuc Resources Corporation. The Company is engaged in the acquisition, exploration and development of natural resources. The address of the registered office is Suite 402, 121 Richmond Street West, Toronto, Ontario, M5H 2K1. The Company is listed on the TSX-V under the symbol CDA.

The consolidated financial statements of the Company for the years ended December 31, 2016 and 2015 were authorized for issue in accordance with a resolution of the directors dated April 27, 2017.

The ability of the Company to realize the costs it has incurred to date on its properties is dependent upon the Company being able to identify economically recoverable reserves, to finance their development costs and to resolve any environmental, regulatory, or other constraints, which may hinder the successful development of the reserves. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development activities and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, and non-compliance with regulatory and environmental requirements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements, such adjustments could be material. The Company has a need for financing for working capital, and the exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern.

2. Basis of Presentation

Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC").

Basis of Measurement:

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention except for financial instruments measured at fair value.

2. Basis of Preparation (cont'd)

Use of Estimates and Judgments:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in Note 4.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been adopted for the year ended December 31, 2016 and have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Basis of Consolidation

These consolidated financial statements include the accounts of Canuc and its controlled subsidiary, Midtex Oil & Gas Corporation ("**Midtex**") which is incorporated under the laws of Ontario. Control is achieved when Canuc has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Its subsidiary is wholly-owned. The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statements of Loss and Comprehensive Loss from the effective date of acquisition or to the date of disposal. Intergroup balances and transactions are eliminated on consolidation.

b) Functional and Presentation Currency:

These consolidated financial statements are presented in Canadian dollars. Canuc Resources Corporation's functional currency is the Canadian dollar. During the year ended December 31, 2015, the Company judgmentally reassessed the functional currency of Midtex and determined that is was the US dollar as compared to the previous year's Canadian dollar functional currency. See note 4.

Assets and liabilities are translated at the closing rate at the date of the statements of financial position. Income and expenses are translated at the exchange rates at the dates of the transactions. All resulting exchanges differences are recognized in other comprehensive income (loss) and accumulated as a separate component of equity.

c) Non-derivative Financial Instruments

Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

3. Summary of Significant Accounting Policies (cont'd)

c) Non-derivative Financial Instruments (cont'd)

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

i) Held to Maturity

Held to Maturity assets are measured at amortized cost using the effective interest method.

ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") are financial assets held for trading or are designated as such by management. Such assets are held for trading if acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statements of loss and comprehensive loss. Transaction costs are expensed as incurred. The Company does not have any financial assets classified as FVTPL.

iii) Loans and Receivables

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include accounts receivables and cash and cash equivalents.

iv) Available-For-Sale Investments

Financial assets classified as available for sale are measured at fair value with unrealized gains or losses recognized in other comprehensive income (loss), except for losses considered to be other than temporary which are recognized in net income. The Company has not classified any financial assets as available for sale.

Purchases and sale of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive income (loss) is reclassified from accumulated other comprehensive income (loss) to net income (loss).

v) Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include trade and other payables and the loan payable.

d) Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of loss and comprehensive income (loss). When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

ii) Non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down to its recoverable amount.

3. Summary of Significant Accounting Policies (cont'd)

d) Impairment (cont'd)

ii) Non-financial assets (cont'd)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to net income (loss), except to the extent that it would reverse gains previously recognized in other comprehensive income (loss).

e) Business Combinations

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes at fair value all of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred and the amount recognized for non-controlling interest exceeds the net amount of the identifiable assets acquired and the liabilities assumed measured at fair value (the "net identifiable assets"), the difference is treated as goodwill. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses. Goodwill is reviewed annually for impairment or when there is an indication of potential impairment. If the fair value of the Company's share of the net identifiable assets exceeds the fair value of the consideration transferred and non-controlling interest at the acquisition date, the difference is immediately recognized in net income (loss). If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquiree is re-measured to fair value as at the acquisition date through net income (loss). The Company does not currently have any goodwill.

Acquisition costs are expensed as incurred in net income (loss). Costs associated with the issuance of equity are charged to the relevant account within equity. Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and attributed to the shareholders of the Company, through contributed surplus.

f) Property, Plant and Equipment

Gains and Losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized in the consolidated statements of loss and comprehensive income (loss).

g) Oil and Gas properties and interests

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation associated with the asset and finance charges on qualifying assets.

Oil and gas properties are measured at cost less accumulated depletion and amortization and accumulated impairment losses. Oil and gas properties are depleted using the unit-of-production method over their reserve life, unless the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Capital costs for assets under construction are excluded from depletion until the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

3. Summary of Significant Accounting Policies (cont'd)

h) Exploration and Evaluation Assets (E&E)

i) E&E Expenditures

The Company expenses the cost of its evaluation expenditures and capitalizes exploration expenditures which are the cost of acquiring interests in mineral rights, licenses and properties in business combinations, asset acquisitions or option agreements. Exploration assets acquired as a result of an asset acquisition or option agreement are initially recognized at cost, and those acquired in a business combination are recognized at fair value on the acquisition date. No depreciation is charged during the evaluation phase. The Company expenses the cost of evaluation activity related to acquired exploration assets.

Cash flows associated with acquiring exploration assets are classified as investing activities in the consolidated statements of cash flows; those associated with evaluation expenses are classified as operating activities.

Evaluation expenditures relate to costs incurred for and evaluation of potential mineral reserves and includes costs related to the following: conducting geological studies; exploratory drilling and sampling and; evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration expenditures, including costs of acquiring licenses, are capitalized as exploration assets on an area of interest basis which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises a single mine or deposit.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, exploration assets attributable to that project are first tested for impairment and then reclassified to mine property and development projects on the consolidated statements of financial position. Currently, there are no assets classified as mine property and development projects.

ii) Pre-E&E (project generation) Expenditures

Pre-E&E (project generation) expenditures are incurred on activities that precede exploration for an evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area. Pre-E&E expenditures are expensed immediately through the consolidated statements of loss and comprehensive loss.

iii) Impairment

Exploration assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an Exploration asset may exceed its recoverable amount and any impairment loss is recognized as a write down of exploration projects through net income (loss). The following facts and circumstances indicate that Exploration assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and there are plans to discontinue activities in the area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full through such activity.

Exploration assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to mine property and development projects on the consolidated statements of financial position.

3. Summary of Significant Accounting Policies (cont'd)

i) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

j) Share-based Compensation and Share Purchase Warrants

Share-based payments issued to directors, officers and employees are based on the estimated fair value of options granted at the time of the grant using the Black-Scholes option pricing model. The fair value is recognized in current earnings as stock-based compensation expense with a corresponding increase to contributed surplus using a graded vesting method of amortization over the vesting period of the options. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are forfeited, previously recognized compensation expense associated with such stock options is reversed.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Share purchase warrants are measured at fair value on the date of issue using the Black Scholes option pricing model. Upon the exercise of share purchase warrants the consideration received and the related amount previously recognized in warrants is transferred to share capital. Upon the expiration of share purchase warrants, the value attributed to those unexercised warrants is transferred from warrants to contributed surplus.

k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the expense relating to any provision is presented in the consolidated statements of comprehensive loss net of the reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statements of comprehensive loss.

3. Summary of Significant Accounting Policies (cont'd)

l) Decommissioning Liabilities

The Company provides for the costs of decommissioning associated with long-lived assets, including the decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. The decommissioning liabilities are recognized in the consolidated statements of financial position at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A corresponding amount is capitalized as part of tangible non-financial assets. Any further adjustment arising from a reassessment of estimated cost of the decommissioning liabilities also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the decommissioning liabilities is treated as a component of finance costs in the consolidated statements of loss and comprehensive loss). Management is not aware of any significant decommissioning liabilities at December 31, 2016 and 2015.

m) Revenue Recognition

The Company's interests in producing wells are managed by an independent third party. This process results in monthly reporting and submissions to the Company. The Company recognizes the earnings from its oil and gas interests and oil and gas properties to the extent it is earned and receivable from these operations. The Company does not operate any of the interests it has in natural gas.

n) Finance Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues using the effective interest method. Finance income is considered an operating activity for cash flow purposes.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized using the effective interest method. Finance costs are considered an operating activity for cash flow purposes.

o) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

i) Current Income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

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 liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of comprehensive income.

3. Summary of Significant Accounting Policies (cont'd)

o) Taxes (cont'd)

ii) Deferred tax – continued

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Corporation does not recognize deferred tax assets to the extent that it does not expect to realize the benefits from the deductible temporary differences, the carry forward of unused tax credits and unused tax losses.

p) Earnings Per Share ("EPS")

Basic EPS is calculated by dividing total comprehensive earnings/loss from continuing operations attributable to owners of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

q) Flow-through Shares

The resource expenditure deductions, for income tax purposes, related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A liability is recognized in the amount of the premium paid for flow-through shares and is calculated as the excess over market value of the shares without the flow-through feature at the time of issuance.

A deferred tax liability is recognized through the consolidated statements of loss at the time the resource expenditures are incurred.

r) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Contingent liabilities are not recognized in the consolidated financial statements, if not estimable and probable, and are disclosed in notes to the financial information unless their occurrence is remote.

s) Segment Reporting

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risk and rewards that are different from those of other segments. The Company's operations are in two business segments, mineral exploration and in oil and gas interests. As at December 31, 2016, the Company operates in two geographical segments: Canada and the United States.

3. Summary of Significant Accounting Policies (cont'd)

t) Assets Held for Sale and Discontinued Operations

Assets and liabilities held for disposal are no longer depreciated and are presented separately in the consolidated statements of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if it's carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

A discontinued operation represents a major line of business or geographic area of operations for the Company that either has been disposed of or is classified as held for sale. The items in the consolidated statement of financial position related to these discontinued operations are presented on specific lines in the annual consolidated financial statements. Profit or loss items related to these discontinued operations are shown separately in the consolidated financial statements for all periods presented if they are material to the Company.

4. Critical Judgments and Accounting Estimates

Measurement Uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of the accounting policies to financial information presented. Actual results may differ from the estimates, assumptions and judgments made. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes made to estimates are reflected in the period the changes are made.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

Reserve Estimates

The estimation of oil and gas reserves is an inherently complex process requiring significant judgment. Proved and probable reserves are estimated based on geological data, geophysical data, engineering data, projected future rates of production estimated commodity prices, costs, discount rates, and the timing of future expenditures. Reserve estimates, although not reported as part of the Company's consolidated financial statements, can have a significant effect on earnings, assets as a result of their impact on depletion and impairment, decommissioning provisions and deferred taxes. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the net income (loss) in the period the new information becomes available.

Share-based payment transaction

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

4. Critical Judgments and Accounting Estimates (Cont'd)

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Significant accounting judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations that have the most significant effect on the amounts recognized in the Company's consolidated financial statements, are related to the economic recoverability of its oil and gas properties and interests, cash-generating units, definition of segments, functional currency and related parties, impairment of financial assets, the provision for reclamation and obligation, when and if deferred taxes are recoverable and the assumption that the Company will continue as a going concern.

During fiscal 2015, the Company made a determination that the functional currency of Midtex should be United States dollars. Prior to 2015, Management judgmentally determined the functional currency to be Canadian dollars. Management, in its determination, considered all of the relevant primary and secondary factors however, the deciding factor which led to the change in functional currency was that Midtex became self-sustaining. Management, in its judgement, determined that the switch-over date for Midtex should be the beginning of the 2015 fiscal year. The change in functional currency has been applied prospectively since January 1, 2015.

5. Future Accounting Changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC"). Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. None of these are expected to have a significant effect on the Consolidated Financial Statements of the Company.

The IASB has issued IFRS 9 Financial Instruments ("IFRS 9") which proposes to replace IAS 39 Financial Instruments Recognition and Measurement. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets — amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held-to-maturity, available-for-sale and loans and receivable categories. The effective date is January 1, 2018, with earlier application permitted. The Company has not adopted IFRS 9 in its consolidated financial statements for the current period, but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements based on the characteristics of its financial instruments at the date of adoption.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB in May, 2014. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The Company intends to adopt IFRS 15 on its effective date and has not reviewed the effects of this future policy change.

Expressed in Canadian dollars unless otherwise indicated

5. Future Accounting Changes (cont'd)

IFRS 16 Leases ("IFRS 16") was issued by the IASB in January 2016, and will replace IAS 17 Leases ("IAS 17"). Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for the annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company has not yet assessed the impact of this standard.

6. Oil and Gas Properties

Texas USA Properties	
Balance, December 31, 2014	**$ 234,749**
Additions	---
Depletion	(69,058)
Foreign Exchange	39,649
Write-offs	(205,340)
Balance, December 31, 2015 and 2016	**$ ---**

At December 31, 2016, the Company's oil and gas properties consisted of the Coody Morales Lease, a 100% working interest (80% net revenue interest) in an oil and gas lease. The asset belongs to the US reportable segment. During the fourth quarter of 2015, management decided that low gas prices which, in its judgement have been prolonged and observable, were impacting revenue generated from this asset. Management determined that production should cease until gas prices restore to more favorable levels and accordingly, impaired the asset recording a charge of $205,340 in the interim consolidated financial statements of that period.

7. Oil and Gas Interests

Texas USA Properties	
Balance, December 31, 2014	**$ 459,284**
Investments	31,522
Foreign Exchange	75,397
Write-offs	(364,391)
Balance, December 31, 2015	**$ 201,812**
Investments	9,671
Foreign Exchange	(5,895)
Write-offs	---
Balance, December 31, 2016	**$ 205,588**

7. Oil and Gas Interests (cont'd)

The Company's oil and gas interests are comprised of the following:

(a) Thompson Lease

A 20% working interest (16% net revenue interest) in an oil and gas lease and five producing gas wells.

The Thompson leases are part of the US reportable segment. Management in the fourth quarter of 2015, determined that there were observable and prolonged indicators of impairment. Management judgmentally performed a value in use calculation, estimating the life of each gas producing well, the expected sales price, costs to run the wells, and the natural decline curve of production. In arriving at these estimates, geological formations around the wells as well as historical patterns were evaluated. As a result, impairment charges of $308,972 were recorded in the interim consolidated financial statements of that period.

(b) Walker Buckler Lease

A 15% working interest (11.25% net revenue interest), in an oil and gas lease and one producing gas well. The lease is located in Shackelford County, Texas, USA.

The Walker Buckler lease is part of the US reportable segment. Management in the fourth quarter of 2015, determined that there were observable and prolonged indicators of impairment. Management judgmentally performed a value in use calculation, estimating the life of each gas producing well, the expected sales price, costs to run the wells, and the natural decline curve of production. In arriving at these estimates, geological formations around the wells as well as historical patterns were evaluated. As a result, an impairment charge of $55,419 was recorded in the interim consolidated financial statements of that period.

(c) Texas Oil and Gas prospect leases

The Company had purchased between a 15% and 20% working interest (12% and 16% net revenue interest), in several oil and gas leases located in Stephens and Shackelford Counties, Texas, USA.

8. Loan Payable

As of October 2014, the Company's former President agreed to write-off $120,000 of the amount that he billed to the Company during past years, to reduce his future consulting fee to $60,000 per annum and to transfer $127,980 of what he was owed at December 31, 2013 from accounts payable to a long-term payable. During 2014, a net number of $27,980 was transferred to accounts payable, reducing the total to $100,000 At the end of 2014, an agreement was reached that resulted in $40,000 of the long-term payable being written-off. In March 2015, the balance of $60,000 was converted into 120,000 common shares of the Company. As a result of the conversion, the Company recognized a gain on settlement of debt of $36,000.

Expressed in Canadian dollars unless otherwise indicated

9. Share Capital

On August 17th, 2015, the shareholders of the Company approved a share consolidation on a ten (10) for one (1) basis. Under the approved consolidation, any fractional shares would be rounded down to the nearest whole share. The share consolidation took effect on September 3, 2015. The then common shares outstanding were consolidated into 6,886,751 common shares. These consolidated financial statements have been retrospectively restated including loss per share and any share, warrant or option transaction issued and or otherwise convertible into shares to account for the Company's share consolidation.

Authorized

Unlimited number of Common shares
Unlimited number of Class A shares

Common Shares Issued:	Number of Shares	Amount
Balance, January 1, 2014	**6,766,751**	**$ 53,959,698**
Common shares issued upon settlement of debt	120,000	24,000
Common shares issued on private placement	3,060,000	153,000
Share issue costs	---	(4,009)
Balance December 31, 2015	**9,946,751**	**$ 54,132,689**
Common shares issued upon private placement	140,000	7,000
Common shares issued upon exercise of options	100,000	11,910
Balance, December 31, 2016	**10,186,751**	**$ 54,151,599**

Warrants

As at December 31, 2016 the following share purchase warrants are outstanding:

Number of Warrants	Exercise Price	Estimated Fair Value ("EFV")	Expiry Date
350,000	$ 1.00	$ 15,750	October 9, 2017
3,200,000	$ 0.10	-	November 4, 2017
3,550,000		$ 15,750	

On February 13, 2015, 100,000 share purchase warrants exercisable at $1.50 per share with an estimated fair value of $40,000 expired.

Subsequent to year end, 4 million warrants were issued pursuant to the $2 million financing closed on February 21, 2017 (see subsequent events note 17). These warrants have a two-year life and a $0.50 exercise price.

Expressed in Canadian dollars unless otherwise indicated

9. Share Capital (cont'd)

Share-based Payments

The Company's Stock Option Plan (the "Plan") provides for the granting of options to employees, officers, directors and consultants of a maximum of 10% of the issued and outstanding common shares at an exercise price equal to or greater than the market price of the Company's common shares on the date of the grant. Options granted under the Plan may have a life of up to 5 years. At the discretion of the Board of Directors, these options may vest immediately or vest over time or based on achieving certain performance targets. Each stock option is exercisable to purchase one common share of the Company at the price specified in the terms of the option.

As at December 31, 2016 and the Company had the following incentive stock options outstanding:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2014	**40,000**	**$**	**0.50**
Expired	(40,000)		0.50
Issued	595,000		0.06
Balance, December 31, 2015	**595,000**	**$**	**0.06**
Issued	310,000		0.25
Exercised	(100,000)		(0.06)
Balance, December 31, 2016	**805,000**	**$**	**0.13**

Stock Options	Exercise Price	Estimated Fair Value	Expiry Date
495,000	$0.06	$29,284	October 5, 2018
310,000	$0.25	$36,200	May 16, 2019

On July 31, 2015 40,000 options expired unexercised. On October 6, 2015, the Board of Directors approved and the Company issued 595,000 options in accordance with its stock option plan. The options have a strike price of $0.06, have a term of three years and vested immediately. The assumptions used to value the options were a stock price of $.06, an expected life of 3 years, an interest rate without risk of 0.52%, no expected dividend yield, and an estimated volatility of 248.34% which results in a fair value of $35,200.

On May 17, 2016, the Company issued 310,000 stock options. Using the Black-Scholes pricing model and the following inputs; stock price of $0.12, exercise price of $0.10, volatility of 435%, risk free rate of 0.60% and no annual rate of quarterly dividends, the estimated value of the options granted is $36,200. On November 21, the Company agreed with the TSX Venture Exchange to reprice its options issued on May 17, 2016, changing the strike price from $0.10 to $0.25 per option. This change does not have a material impact on the consolidated financial statements.

Expressed in Canadian dollars unless otherwise indicated

10. Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying mining, petroleum and natural gas assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Company considers its capital structure to include cash, cash equivalents and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital.

11. Financial Instruments and Risk Management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company's financial instruments that are carried in the consolidated financial statements and how the fair value of financial instruments is measured.

Fair values

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

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

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents are considered level 1.

Categories of Financial Instruments	**Dec. 31, 2016**	**Dec. 31, 2015**
Financial Assets—other receivables		
Cash	**$ 4,395**	$ 41,072
Accounts receivable[1]	**-**	37,422
Financial Liabilities—other financial liabilities		
Trade and other payables	**$ 537,009**	$ 170,181

Notes: [1] Receivable balances owing from government bodies such as HST are not considered financial instruments and are not included in the table above

11. Financial Instruments and Risk Management (cont'd)

The fair values of all the Company's financial instruments approximate the carrying value due to the short term nature of the financial instrument. The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices). The Company's overall risk management program focuses on the unpredictability of financial markets, and seeks to minimize potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer is unable to meet its contractual obligations and arises principally from the Company's accounts receivable. The Company's receivables are the receipt of oil and gas revenues from one customer and refundable sales taxes issued by the government of Canada. The Company has not experienced any credit loss in the collection of its accounts receivable on oil and gas revenues or refundable sales taxes. The Company's cash and equivalents are held with Canadian financial institutions with an "AA" credit rating.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand any downturn in the industry. As the Company's industry is very capital intensive, the majority of its spending is related to its capital programs. The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates and commodity and equity prices will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in certificates of deposit issued by a Canadian chartered bank with which it keeps its bank accounts. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of the Canadian chartered bank.

Foreign exchange risk

The Company engages in transactions and activities in currencies other than its reported currency. The Company's exploration activities are primarily in Ecuador and the United States of America, ongoing exploration expenses, assets and liabilities are exposed to foreign exchange fluctuations. The Company's revenues and part of its expenses are transacted in US dollars.

Commodity and equity risk

The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Equity price risk is the potential adverse impact on the Company's comprehensive earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors commodity prices, as they relate to precious and base metals, oil and gas and the stock market to determine the appropriate course of action to be taken by the Company. Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depend upon the world market price of precious and base metals and oil and gas. Precious and base metals have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of precious and base metals are produced in the future, a profitable market will exist for them.

Expressed in Canadian dollars unless otherwise indicated

11. Financial Instruments and Risk Management (Cont'd)

Sensitivity analysis

Based on Management's knowledge and experience of the financial markets, the Company believes the following assumptions are reasonable for the year ended December 31, 2016: (i), while cash and cash equivalents are subject to floating interest rates, a plus or minus one percentage point change in interest rates would not have a material impact on the Company's reported net income (loss) and comprehensive income (loss); (ii), if the US dollar appreciated/depreciated by 10%, the Company's net income(loss) would decrease/increase by approximately $4,600; and (ii), if the gas price appreciated/depreciated by 10%, the Company's net loss would decrease/increase by approximately US$8,400.

12. Related Party Transactions

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties). The following is a summary of the Company's related party transactions for the periods ended December 31, 2016 and 2015.

Rental Payments and Receipts

In the year ended December 31, 2015 rental receipts of $49,285 (2015 - $27,284) were received from corporations with common directors.

Compensation of key management personnel and directors for the period was as follows:

For the year ended December 31,	**2016**	**2015**
Cash-based remuneration	**$ 149,410**	$ 87,000
Non-cash-based compensation	**36,200**	35,200
	$ 185,610	$ 122,200

During the period ended March 31, 2015, a short-term loan payable to the former president of the Company in the amount of $60,000 was converted to 120,000 common share resulting in a gain on settlement of $36,000 and which left $27,100 still payable. During the quarter ended June 30, 2016, settlement terms for the remaining amount was reached. As a result, a gain on settlement of debt of $10,600 was recorded.

There remains $9,500 payable of which approximately $2,500 will be settled conditionally by the issuance of 10,000 common shares of the Company.

At December 31, 2016, $11,000 owing to the current Chief Financial Officer was included in accounts payable. There is also $83,000 payable to the former Chief Financial Officer at December 31, 2016 (December 30, 2015 - $nil). These amounts were paid when the February 2017 financing closed.

At December 31, 2016, there is $7,789 payable to a corporation of which a Director of Canuc is the President (December 31, 2015 - nil).

At December 31, 2016, there is a receivable of $1,037 from a corporation of which a director of Canuc is a director (December 31, 2015 – nil).

13. Loss Per Share

Basic and diluted loss per share

The calculation of basic income per share for the year ended December 31, 2016 was based on total comprehensive loss attributable to common shareholders of $501,397 (loss in 2015 - $767,703) and a weighted average number of common shares outstanding of 10,137,984 (2015 – 7,328,179). The exercise of the Company's outstanding warrants and options would be anti-dilutive and therefore the basic loss and the diluted loss per share are the same.

Expressed in Canadian dollars unless otherwise indicated

14. Commitments

The Company entered into a lease for premises effective May 1, 2016. The lease has one renewal term of five years after the initial 5-year and 4-month term. The Company received a rent free period from May 1, 2016 until August 31, 2016. As a result of the free rent period, the Company has recorded deferred charges on the balance sheet. The recording of the deferred charges results in a straight-line rent charge to the statement of profit and loss.

Rent expense of $9,660 was recognized for the year ended December 31, 2016 (December 31, 2015 - $18,601). The Company has entered into two sublease agreements, each for a term of 5 years. The expected minimum sublease rents to be received from December 31, 2016 to the end of the sublease agreements is $74,597.

The Company leases its head office space with the following aggregate minimum lease payments:

Not later than a year	$ 24,593
Between 1 and 5 years	98,370
Later than 5 years	16,395
	$ 139,358

15. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2015 - 26.5%) to the effective tax rate is as follows:

	2016	2015
Net income (loss) for the year	**$ (501,398)**	$ (767,703)
Expected income tax recovery	**(132,870)**	(203,440)
Write-down of oil and gas interests	**-**	150,980
Share issue costs	**-**	9,600
Stock based compensation	**9,600**	9,330
Other	**(77,306)**	9,530
Change in tax benefits not recognized	**200,580**	24,000
Deferred income tax recoverable	**$ -**	$ -

Expressed in Canadian dollars unless otherwise indicated

15. Income Taxes – continued

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom:

	2016	2015
Non capital loss carryforwards	**$ 6,159,740**	$ 5,334,810
Capital loss carryforwards	**21,799,350**	21,799,350
Exploration properties	**2,007,320**	2,085,760
Equipment	**22,840**	22,840
Financing costs	**3,060**	39,910
Other	**37,780**	37,780

The non-capital loss carryforwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely.

2026	$ 129,070
2027	2,374,190
2028	320,450
2029	394,880
2030	786,450
2031	326,950
2032	503,270
2033	181,270
2034	263,370
2035	318,830
2036	561,010
	$ 6,159,740

Expressed in Canadian dollars unless otherwise indicated

16. Segment Information

The Company is engaged in the exploration and evaluation of properties for the mining of precious and base metals and the development of oil and gas properties. The Company does not have formal operating segments. The corporate office operates to support the Company's projects. As of December 31, 2016, the projects are located in the United States.

As of December 31, 2016, the Company's oil and gas wells in Texas represent 100% of its revenues (2015 - 100%), and 94% of its assets (December 31, 2015 – 66%). Management makes decisions by considering exploration potential and results on a project-by-project basis.

A geographic breakdown of assets by segment follows:

	Dec. 31, 2016	Dec. 31, 2015
Canada		
Corporate	**$ 12,240**	$ 102,662
	12,240	102,662
United States—Texas		
Oil and Gas Properties	**---**	---
Oil and Gas Interests	**205,588**	201,812
	205,588	201,812
	$ 217,828	$ 304,474

17. Subsequent Events

On February 21, 2017 Canuc announced the completion of the reverse takeover transaction previously announced, on the terms set out in the business combination agreement dated August 26, 2016 (the "Transaction"). The Transaction involved the combination of Canuc and Santa Rosa Silver Mining Corp. ("Santa Rosa") by way of an amalgamation of Santa Rosa and a wholly-owned subsidiary of Canuc, to form one company as a wholly owned subsidiary of Canuc. Pursuant to the amalgamation, all issued and outstanding securities in the capital of Santa Rosa were converted into like issued and outstanding securities of Canuc on a two-for one basis. The Transaction was approved by written consent of the holders of more than 50% of the issued and outstanding common shares of the Company held by disinterested shareholders. This Transaction resulted in 22,365,000 shares being issued to Santa-Rosa shareholders.

The Company is also pleased to announce that it has closed the concurrent financing of $2,000,000, representing the maximum financing amount disclosed in the filing statement filed in connection with the Transaction. The closing of this financing results in the issuance of 8,000,000 units, with each unit comprised of one common share and one half of one common share purchase warrant, with each unit priced at $0.25 (25 cents) and each share purchase warrant having a life of two years from the date of issue and an exercise price of $0.50 (50 cents). In connection with the financing, Canuc will pay commission to Finley Holdings Ltd, Bonaventure Explorations Limited, and Leede Jones Gable Inc. aggregating to $150,617 CAD, 602,468 commission warrants and 75,064 commission units, with the commission units having the same terms and conditions as those units issued under the financing. The commission warrants have an exercise price of $0.25 (25 cents) but otherwise have the same terms and conditions as the warrants issued under the financing. The hold period for shares issued in the financing will be 4 months and funds will be used for the exploration and development of the Company's San Javier project in Sonora, Mexico and for general working capital purposes.

17. Subsequent Events – continued

On March 8, 2017, the Company announced the issuance of 2,200,000 incentive stock options to Officers, Directors and consultants of the Company. These options have a 3 year term and a $0.50 exercise price. In April 2017, an additional 400,000 options were granted on the same terms.

Subsequent to year-end, a total of 285,000 stock options were exercised, resulting in proceeds of $40,850 and 1,060,000 warrants were exercised, resulting in proceeds of $106,000.