

# **CANUC RESOURCES CORPORATION**

**Condensed Interim Consolidated Financial Statements**

**Unaudited**

(In Canadian dollars)

**2<sup>nd</sup> quarter June 30, 2016**

**REVIEW ENGAGEMENT REPORT**

**To the Shareholders of  
Canuc Resources Corporation:**

We have reviewed the condensed interim consolidated statements of financial position of **Canuc Resources Corporation** as at June 30, 2016 and December 31, 2015, and the condensed interim consolidated statements of loss and comprehensive (loss) income, condensed interim consolidated statements of changes in shareholders' equity, and condensed interim consolidated statements of cash flows for the periods ended June 30, 2016 and June 30, 2015. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by management.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with International Financial Reporting Standards.



Toronto, Canada  
August 26, 2016

S & W LLP  
Chartered Professional Accountants, Licensed Public Accountants

# CANUC RESOURCES CORPORATION

## Condensed Interim Consolidated Statements of Financial Position

(in Canadian Dollars)

(Unaudited)

As at,	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current		
Cash	\$ 21,650	\$ 41,072
Accounts receivable	34,802	54,303
Prepaid expenses and deposits	1,214	7,287
	<b>57,666</b>	102,662
Non-current		
Investment in oil and gas interests (note 5)	190,792	201,812
	<b>\$ 248,458</b>	\$ 304,474
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 212,317	\$ 170,181
Deferred Charges (note 11)	3,967	-
	<b>216,284</b>	170,181
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 6)	54,151,599	54,132,689
Shares to be issued	-	7,000
Warrants (note 6)	15,750	15,750
Contributed surplus	2,943,649	2,913,359
Cumulative translation reserve	94,877	101,541
Deficit	(57,173,701)	(57,036,046)
	<b>32,174</b>	134,293
	<b>\$ 248,458</b>	\$ 304,474

Going Concern and Commitments (notes 1 and 11)

On behalf of the Board,

"Signed"

*Hubert Mockler*

Hubert Mockler  
Director

"Signed"

*Chris Berlet*

Chris Berlet  
Director

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

## CANUC RESOURCES CORPORATION

### Condensed Interim Consolidated Statements of Loss and Comprehensive (Loss) Income (Unaudited) (in Canadian Dollars)

For the periods ended June 30,	Three Months		Six Months	
	2016	2015 (Restated-note 2)	2016	2015 (Restated-note 2)
<b>Sales of Petroleum Products</b>				
Sales	\$ 26,351	\$ 73,067	\$ 52,352	\$ 137,604
Less: Landowner royalties	-	3,591	-	7,232
	<b>26,351</b>	69,476	<b>52,352</b>	130,372
Operating costs	<b>7,181</b>	21,480	<b>17,923</b>	65,536
Depletion	-	21,821	-	37,693
	<b>7,181</b>	43,301	<b>17,923</b>	103,229
	\$ <b>19,170</b>	\$ 26,175	\$ <b>34,429</b>	\$ 27,143
<b>Expenses</b>				
Management fees (note 9)	<b>52,105</b>	27,366	<b>63,015</b>	49,763
Evaluation expenses	-	-	<b>(16,785)</b>	372
General and administration	<b>21,575</b>	13,294	<b>27,349</b>	24,445
Professional fees	<b>57,236</b>	11,941	<b>53,704</b>	26,778
Interest expense	<b>14</b>	-	<b>54</b>	-
Shareholder and investor relations	<b>5,700</b>	5,074	<b>12,663</b>	12,550
Stock based compensation	<b>36,200</b>	-	<b>36,200</b>	-
Foreign exchange	<b>836</b>	3,591	<b>6,486</b>	(16,391)
Gain on settlement of debt	<b>(10,600)</b>	-	<b>(10,600)</b>	(36,000)
	<b>163,066</b>	61,266	<b>172,084</b>	61,517
Net loss	<b>(143,896)</b>	(35,091)	<b>(137,655)</b>	(34,374)
Other comprehensive (loss) Income				
Currency translation differences	<b>(747)</b>	(8,904)	<b>(6,664)</b>	39,387
Comprehensive (loss) income	<b>\$(144,643)</b>	\$ (43,995)	<b>\$(144,319)</b>	\$ 5,013
Basic and diluted (loss) income				
per common share (note 10)	<b>(0.01)</b>	(0.01)	<b>(0.01)</b>	0.00
Weighted average number of shares outstanding				
during the period - basic and diluted	<b>10,121,195</b>	6,787,099	<b>10,088,408</b>	6,731,109

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

# CANUC RESOURCES CORPORATION

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited) (in Canadian Dollars)

	Number of common shares issued	Share Capital \$	Shares to be issued \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Reserve \$	Deficit \$	Total Equity \$
As at Jan. 1, 2016	9,946,751	54,132,689	7,000	15,750	2,913,359	101,541	(57,036,046)	134,293
Shares issued on private placement	140,000	7,000	(7,000)	-	-	-	-	-
Options exercised	100,000	11,910	-	-	(5,910)	-	-	6,000
Options issued	-	-	-	-	36,200	-	-	36,200
Net income	-	-	-	-	-	-	(137,655)	(137,655)
Other comprehensive loss	-	-	-	-	-	(6,664)	-	(6,664)
<b>As at Jun. 30, 2016</b>	<b>10,186,751</b>	<b>54,151,599</b>	<b>-</b>	<b>15,750</b>	<b>2,943,649</b>	<b>94,877</b>	<b>(57,173,701)</b>	<b>32,174</b>
As at Jan 1, 2015	6,766,751	53,959,698	-	55,750	2,838,159	-	(56,268,343)	585,264
Warrants expired	-	-	-	(40,000)	40,000	-	-	-
Common shares issued upon settlement of debt	120,000	24,000	-	-	-	-	-	24,000
Net loss	-	-	-	-	-	-	(34,374)	(34,374)
Other comprehensive income	-	-	-	-	-	39,387	-	39,387
<b>As at Jun. 30, 2015</b>	<b>6,886,751</b>	<b>53,983,698</b>	<b>-</b>	<b>15,750</b>	<b>2,878,159</b>	<b>39,387</b>	<b>(56,302,717)</b>	<b>614,277</b>

*See accompanying notes to the Condensed Interim Consolidated Financial Statements.*

## CANUC RESOURCES CORPORATION

### Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(in Canadian Dollars)

For the six-month period ended June 30,	2016	2015
		(Restated-Note 2)
Net loss	\$ (137,655)	\$ (34,374)
Items not affecting cash:		
Depletion	-	37,693
Gain on settlement of debt	(10,800)	(36,000)
Stock based compensation	36,200	-
Net change in non-cash working capital balances:		
Accounts receivable	21,105	28,622
Prepaid expenses and deposits	6,073	9,320
Accounts payable and accrued liabilities	58,843	2,786
Deferred charges	3,967	-
Cash (used in) provided by operations	\$ (22,267)	\$ 8,047
INVESTING ACTIVITIES		
Investment in oil and gas interests	(2,434)	(15,720)
Cash used by investing activities	\$ (2,434)	\$ (15,720)
FINANCING ACTIVITIES		
Issuance of common shares	6,000	-
Cash provided by financing activities	\$ 6,000	\$ -
Impact of foreign exchange on cash	\$ (721)	\$ (1,323)
Net decrease in cash	\$ (19,422)	\$ (8,996)
Cash, beginning of the period	41,072	11,739
Cash, end of the period	\$ 21,650	\$ 2,743

*See accompanying notes to the Condensed Interim Consolidated Financial Statements.*

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

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## 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. It 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 condensed interim consolidated financial statements of the Company for the period ended June 30, 2016 were authorized for issue in accordance with a resolution of the directors dated August 26, 2016.

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 condensed interim 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 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. Restatement of Previously Issued Financial Statements

Subsequent to the issuance of the Company's unaudited condensed interim consolidated financial statements, as at June 30, 2015, the Company made a determination that the functional currency for its Midtex subsidiary should be US dollars. Prior to 2015, management had judgmentally determined the functional currency for Midtex 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 during 2015. 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

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 2. Restatement of Previously Issued Financial Statements - *Continued*

currency has been applied prospectively since January 1, 2015. The Company also determined that one its non-cash transactions was incorrectly measured. The Company omitted a gain on settlement of certain debt, instead recording the full amount to share capital.

The restatement of the Company's unaudited condensed interim consolidated financial statements includes adjustments to the consolidated statement of financial position, the consolidated statement of income and comprehensive income and consolidated statement of cash flows as set out in the table below:

Changes to the condensed interim consolidated statement of loss and comprehensive (loss) income:

		<b>As previously reported for the three months ended June 30, 2015</b>	<b>Adjustment</b>	<b>Restated for the three months ended June 30, 2015</b>
Depletion	\$	26,550	\$ (4,729)	\$ 21,821
Foreign exchange	\$	(366)	\$ 3,957	\$ 3,591
Net loss	\$	(35,863)	\$ 772	\$ (35,091)
Currency translation differences	\$	-	\$ (8,904)	\$ (8,904)
Comprehensive loss	\$	(35,863)	\$ (8,132)	\$ (43,995)

Changes to the condensed interim consolidated statement of loss and comprehensive (loss) income:

		<b>As previously reported for the six months ended June 30, 2015</b>	<b>Adjustment</b>	<b>Restated for the six months ended June 30, 2015</b>
Depletion	\$	45,750	\$ (8,057)	\$ 37,693
Foreign exchange	\$	(4,816)	\$ (11,575)	\$ (16,391)
Gain on settlement of debt	\$	-	\$ (36,000)	\$ (36,000)
Net loss	\$	(90,005)	\$ 55,631	\$ (34,374)
Currency translation differences	\$	-	\$ 39,387	\$ 39,387
Comprehensive (loss) income	\$	(90,005)	\$ 95,018	\$ 5,013

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 2. Restatement of Previously Issued Financial Statements – *Continued*

Changes to the condensed interim consolidated statement of cash flows:

	As previously reported June 30, 2015	Adjustment	Restated June 30, 2015
Net loss	\$ (90,005)	\$ 55,631	\$ (34,374)
Depletion	\$ 45,750	\$ (8,057)	\$ 37,693
Gain on settlement of debt	\$ -	\$ (36,000)	\$ (36,000)
Accounts receivable	\$ 35,771	\$ (7,149)	\$ 28,622
Accounts payable and accrued liabilities	\$ 5,888	\$ (3,102)	\$ 2,786
Impact of Foreign exchange on cash	\$ -	\$ (1,323)	\$ (1,323)

All cumulative adjustments have been reflected in the December 31, 2015 deficit balance of \$(57,036,046), which prior to the restatement would have been \$(56,898,505).

## 3. Significant Accounting Policies

Statement of compliance:

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of condensed interim financial statements including IAS 34.

The notes in these condensed interim consolidated financial statements include only significant events and transactions and do not include all matters usually disclosed in the Company's audited annual financial statements, and are therefore, referred to as condensed. They should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2014, prepared in accordance with IFRS. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information

The condensed interim consolidated financial statements for the period ended June 30, 2016 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 condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention.

Use of Estimates and Judgments:

The preparation of condensed interim consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

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## 3. Significant Accounting Policies - *Continued*

Use of Estimates and Judgments: —Continued

liabilities at the date of the condensed interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best estimate of the amount and knowledge of events or actions, actual results ultimately may differ from those estimates.

The accounting policies set out below have been adopted for the period ended June 30, 2016 and have been applied consistently to all periods presented in these condensed interim financial statements, unless otherwise indicated.

### 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 is expected to have a significant effect on the financial statements of the Company.

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB in its final form in July 2014, and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company intends to adopt IFRS 9 on its effective date and has not reviewed the effects of this future policy change.

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.

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.

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 4. Oil and Gas Properties

	Jan. 1, 2016	Additions	Depletion	Foreign Exchange	Write-offs	Jun. 30, 2016
Texas USA Properties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	Jan. 1, 2015	Additions	Depletion	Foreign Exchange	Write-offs	Jun. 30, 2015
Texas USA Properties	\$ 234,749	\$ -	\$ (37,693)	\$ 17,580	\$ -	\$ 214,636

At June 30, 2016, the Company's oil and gas properties consist 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.

## 5. Investment in Oil and Gas Interests

	Jan. 1, 2016	Investments	Foreign Exchange	Write-offs	Jun. 30, 2016
Texas USA Investments	\$ 201,812	\$ 2,434	\$ (13,454)	\$ -	\$ 190,792

	Jan. 1, 2015	Investments	Foreign Exchange	Write-offs	Jun. 30, 2015
Texas USA Investments	\$ 459,284	\$ 15,720	\$ 35,304	\$ -	\$ 510,308

The Company's investments in 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.

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 5. Investment in Oil and Gas Interests - *Continued*

### (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.

Due to falling natural gas prices, there are currently no plans for new wells in 2016 on any of the leases.

## 6. Share Capital

On August 17<sup>th</sup>, 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
<b>Balance, Jan. 1, 2016</b>	<b>9,946,751</b>	<b>\$ 54,132,689</b>
Common shares issued upon private placement	140,000	7,000
Common shares issued upon exercise of options	100,000	11,910
<b>Balance, Jun. 30, 2016</b>	<b>10,186,751</b>	<b>\$ 54,151,599</b>
<b>Balance, Jan. 1, 2015</b>	<b>6,766,751</b>	<b>\$ 53,959,698</b>
Common shares issued upon settlement of debt	120,000	24,000
<b>Balance Jun. 30, 2015</b>	<b>6,886,751</b>	<b>\$ 53,983,698</b>

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 6. Share Capital - *Continued*

### Warrants

As at June 30, 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	

### Share-based Payments

The Company's Stock Option Plan (the "Plan") provides for the granting of options to employees, officers, directors and consultants to 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, vest over time, or upon 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 June 30, 2016 the Company had the following incentive stock options outstanding:

	Number of Options	Weighted Average exercise price
		\$
<b>Balance, January 1, 2016, exercisable</b>	595,000	0.06
Issued	310,000	0.10
Exercised	100,000	0.06
Expired	-	-
<b>Balance, June 30, 2016, exercisable</b>	<b>805,000</b>	<b>0.08</b>
<b>Balance, January 1, 2015, exercisable</b>	40,000	0.50
<b>Balance, June 30, 2015, exercisable</b>	40,000	0.50

Stock Options	Exercise Price	Estimated Fair Value	Expiry Date
495,000	\$0.06	\$29,284	October 5, 2018
310,000	\$0.10	\$36,200	May 16, 2019

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 .60% and no annual rate of quarterly dividends, the estimated value of the options granted is \$36,200.

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 7. 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.

## 8. 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 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).

All of the Company's financial instruments are considered to be level

Categories of Financial Instruments	June 30, 2016	Dec. 31, 2015
Financial Assets—other receivables		
Cash	\$ 21,650	\$ 41,072
Accounts receivable <sup>1</sup>	16,336	37,422
Financial Liabilities—other financial liabilities		
Trade and other payables	\$ 212,317	\$ 170,181

Notes: <sup>1</sup> Receivable balances owing from government bodies such as HST are not considered financial instruments and are not included in the table above

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

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## 8. Financial Instruments and Risk Management - *Continued*

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 comprised 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 current exploration activities are primarily in 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.

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 8. Financial Instruments and Risk Management - *Continued*

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 and oil and gas 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.

Sensitivity analysis:

Based on Management's knowledge and experience of the financial markets, the Company believes the following assumptions are reasonable for the period ended June 30, 2016: (i), while is 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 loss before comprehensive (loss); (ii), if the US dollar had appreciated/depreciated by 10%, the Company's net loss before comprehensive (loss) would decrease/increase by approximately \$3,500.

## 9. 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.

Rental Payments and Receipts:

For the period ended June 30, 2016 rental receipts of \$22,143 (June 30, 2015-\$5,551) were received from corporations with common directors.

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

<b>For the period ended June 30, 2016,</b>	<b>2016</b>	<b>2015</b>
Cash-based remuneration	\$ 50,210	\$ 39,000
Non-cash-based compensation	17,515	10,000
	\$ 67,725	\$ 49,000

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 9. Related Party Transactions - *Continued*

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.

There was in \$3,660 in accounts payable at June 30, 2016 (June 30, 2015-\$nil) owed to the Chairman and CEO.

There is \$18,985 payable to the Chief Financial Officer at June 30, 2016 (June 30, 2015-\$5,000).

There is \$1,845 payable to a corporation of which a Director of Canuc is the President (June 30, 2015-\$1,556)

## 10. Loss per Share

Basic and diluted (loss) income per share:

The calculation of basic (loss) income per share for the three and six month periods ended June 30, 2016 respectively was based on total comprehensive (loss) attributable to common shareholders of \$(144,643) (2015 - \$(43,995)) and \$(144,319) (2015 - \$5,013). The weighted average number of common shares outstanding for the three and six months ended June 30, 2016 respectively was 10,121,195 (2015-6,787,099) and 10,088,408 (2015-6,731,109). The exercise of the Company's outstanding warrants and options would be anti-dilutive, and therefore the basic (loss) income and the diluted (loss) income per share are the same.

## 11. 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.

Minimum rent expense of \$13,966 (June 30, 2015-\$15,000) and additional rent expense of \$23,674 (June 30, 2015-\$34,392) was recognized for the period ended June 30, 2016. The Company has entered into two sublease agreements, each for a term of 5 years. The expected minimum sublease rents to be received from June 30, 2016 to the end of the sublease agreements is \$83,204.

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

Not later than a year	\$	20,493
Between 1 and 5 years		98,372
Later than 5 years		127,062
	\$	249,926

# CANUC RESOURCES CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2016

(In Canadian dollars)

(Unaudited)

## 12. 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 June 30, 2016, the projects are located in the United States.

As of June 30, 2016, the Company's oil and gas wells in Texas represent 100% of its revenues (2015–100%), and 77% 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 by segment follows:

	June 30, 2016	Dec. 31, 2015
Canada		
Corporate	\$ 57,666	\$ 102,662
	57,666	102,662
United States—Texas		
Oil and Gas Properties	-	-
Investment in Oil and Gas Interests	190,792	201,812
	190,792	201,812
Total Assets	\$ 248,458	\$ 304,474