MOLORI ENERGY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2017

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Molori Energy Inc.:

We have audited the accompanying consolidated financial statements of Molori Energy Inc., which comprise the consolidated statements of financial position as at October 31, 2017 and 2016, and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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 audits 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 Molori Energy Inc. as at October 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Molori Energy Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
February 28, 2018

MOLORI ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	October 31, 2017 $	October 31, 2016 $
ASSETS		
Current Assets		
Cash and cash equivalent	590,251	403,166
Receivables (Note 4)	88,150	68,038
Advances and prepaid expenses (Note 6)	115,117	208,802
	793,518	680,006
Non-current Assets		
Property and Equipment (Note 6)	4,594,245	1,996,399
Total assets	5,387,763	2,676,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	295,630	366,488
Non-current Liabilities		
Decommissioning provision (Note 11)	510,577	320,795
Total liabilities	806,207	687,283
Shareholders' equity		
Share capital (Note 9)	37,729,050	33,608,036
Subscriptions receivable (Note 9)	(13,000)	-
Reserves (Note 9)	3,049,974	2,583,714
Deficit	(36,184,468)	(34,202,628)
	4,581,556	1,989,122
Total liabilities and shareholders' equity	5,387,763	2,676,405

Nature of operations and going concern (Note 1)
Subsequent events (Note 15)

Approved and authorized by the Board on February 28, 2018:

"John Cumming" Director *"Joel Dumaresq"* Director

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

MOLORI ENERGY INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

For the years ended October 31	**2017** **$**	2016 $
OIL AND GAS PRODUCTION		
Revenue	**889,770**	149,452
Production costs	**(741,791)**	(109,522)
Depletion (Note 6)	**(310,974)**	(94,927)
	(162,995)	(54,997)
EXPENSES		
Accounting and legal	**31,591**	113,640
Accretion of decommissioning provision (Note 11)	**7,218**	-
Filing and regulatory	**58,114**	13,473
Foreign exchange loss (gain)	**45,163**	(70,470)
Management and consulting (Note 10)	**652,147**	1,064,271
Office, rent and administrative (Note 10)	**119,067**	184,045
Marketing and shareholder communication	**552,853**	(17,073)
Share-based payments (Notes 9,10)	**425,897**	42,694
Travel	**56,795**	80,962
	(1,948,845)	(1,411,542)
OTHER		
Interest income	**1,209**	5,260
Unrealized loss on marketable securities (Note 5)	**-**	(18,183)
Gain on abandonment of subsidiary (Note 7)	**128,791**	3,773,283
Income (loss) for the year	**(1,981,840)**	2,293,821
Other comprehensive loss:		
Change in cumulative translation adjustment	**-**	(1,388,371)
Comprehensive income (loss) for the year	**(1,981,840)**	905,450
Basic earnings (loss) per common share	**(0.08)**	0.22
Diluted earnings per common share	**(0.08)**	0.20
Weighted average number of common shares outstanding	**25,618,652**	10,548,632

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

MOLORI ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

For the years ended October 31	**2017** **$**	2016 $
CASH FLOWS USED IN OPERATING ACTIVITIES		
Income (loss) for the year	**(1,981,840)**	2,293,821
Non-cash items:		
Gain on abandonment of subsidiary		(2,208,050)
Unrealized loss on marketable securities	**-**	18,183
Share-based payments	**425,897**	42,694
Accretion of decommissioning provision	**7,218**	-
Depletion	**310,974**	94,927
Changes in non-cash working capital items:		
Receivables	**(20,112)**	545,078
Deposits and prepaid expenses	**93,685**	(199,434)
Accounts payable and accrued liabilities	**(70,858)**	(836,797)
	(1,235,036)	(249,578)
CASH FLOW USED IN INVESTING ACTIVITIES		
Property acquisitions	**(2,026,256)**	(1,770,531)
	(2,026,256)	(1,770,531)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net of issuance costs	**2,748,077**	-
Proceeds from exercise of warrants	**700,300**	-
	3,448,377	-
Change in cash and cash equivalents during the year	**187,085**	(2,020,109)
Cash and cash equivalents, beginning	**403,166**	2,423,275
Cash and cash equivalents, ending	**590,251**	403,166

Comprised of:	**$**	$
Cash at bank	**391,447**	104,459
Term deposits	**198,804**	298,707
Total cash and equivalents	**590,251**	403,166

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

MOLORI ENERGY INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Share capital						
	Number	**Amount**	**Subscriptions Receivable**	**Accumulated Other Comprehensive Loss**	**Reserve**	**Deficit**	**Total**
		$	**$**	**$**	**$**	**$**	**$**
Balance, October 31, 2016	10,548,632	33,608,036	-	-	2,583,714	(34,202,628)	1,989,122
Net loss	-	-	-	-	-	(1,981,840)	(1,981,840)
Shares for property acquisition (Notes 6,9)	2,000,000	700,000	-	-	-	-	700,000
Private placement (Note 9)	18,000,360	2,800,108		-	-	-	2,800,108
Warrants exercised (Note 9)	6,311,500	700,300	-	-	-	-	700,300
Options exercised (Note 9)	50,000	13,000	(13,000)				-
Share-based compensation (Note 9)	-	-	-	-	425,897	-	425,897
Share issuance costs (Note 9)	-	(92,394)	-	-	40,363	-	(52,031)
Balance, October 31, 2017	36,910,492	37,729,050	(13,000)	-	3,049,974	(36,184,468)	4,581,556
Balance - October 31, 2015	10,548,632	33,608,036	-	1,388,371	2,541,020	(36,496,449)	1,040,978
Net income	-	-	-	-	-	2,293,821	2,293,821
Shares returned to treasury (Note 9)	-	-	-	-	42,694	-	42,694
Cumulative translation adjustment	-	-	-	(1,388,371)	-	-	(1,388,371)
Balance, October 31, 2016	10,548,632	33,608,036	-	-	2,583,714	(34,202,628)	1,989,122

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Molori Energy Inc. (the "Company") was incorporated on June 5, 2006 in British Columbia under the Business Corporations Act. On January 5, 2017, the Company changed its name from Taipan Resources Inc. to Molori Energy Inc. The Company is an oil and gas production company with operations in Texas USA. The Company's shares trade on the TSX-Venture Exchange.

The Company's head office and principal address is 2630 – 1075 West Georgia Street, Vancouver, BC, V6E 3C9.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. As at October 31, 2017, the Company had a working capital surplus of $497,888 and an accumulated deficit of $36,184,468. The Company has incurred losses since inception and does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favorable terms. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate profitable operations in the future.

2. BASIS OF PREPARATION

Statement of Compliance

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

The Board of Directors approved these financial statements on February 28, 2018.

Basis of Presentation

The financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

Basis of Consolidation

The consolidated financial statements for the year ended October 31, 2016 incorporate the financial statements of the Company and its subsidiary to the date of abandonment (Note 7).

Significant Estimates and Assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of net assets, liabilities, and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the amortization of equipment, recoverability of the carrying value of exploration and evaluation assets, fair value measurements for, reserves and accumulated depletion, financial instruments and stock-based compensation and other equity-based payments, and the recoverability of deferred tax assets. Actual results may differ from those estimates and judgments.

Significant Judgments

The preparation of the financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgement applied in preparing the Company's financial statement is the assessment of the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The functional currency is determined using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency. The functional currency of Lion Petroleum Corp. the abandoned subsidiary was the US Dollar. (Note 7).

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rage at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows: assets and liabilities are translated at period-end exchange rates prevailing at that reporting date and income and expenses are translated at average exchange rates for the period. Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets. The Company's estimates of restoration costs could change as a result of changes in regulatory requirements. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for property and equipment.

Exploration and evaluation assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant, and equipment. Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

3. SIGNIFICANT ACCOUNTING POLICIES (con't)

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of the options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed an adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial Instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets and liabilities are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Cash and cash equivalent and marketable securities are classified as fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Receivables and advances are classified as loans and receivables.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company does not have any financial assets categorized as held to maturity.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses and foreign exchange gains and losses. The Company does not have any financial assets categorized as available-for-sale.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Accounts payable are classified as non-derivative liabilities.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (con't)

Financial Instruments (con't)

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Property and equipment

Property and equipment, which include oil and gas properties where technical feasibility and commercial viability have been established, are measured at cost less accumulated depletion and depreciation, and adjustments for impairment. Costs include expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment, including oil and gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss. Farm outs of oil and gas properties included in property and equipment are accounted for as a disposition of an interest in the asset in exchange for the fair value of goods and services received pertaining to the Company's retained interest in the asset.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such costs generally represent amounts incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of oil and gas properties are recognized in profit or loss as incurred.

Impairment of assets

The carrying amount of the Company's assets (which includes property and equipment) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Revenue

Revenue from the sale of oil and gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party, can be reasonably estimated and collectability is reasonably assured. This is generally at the time product enters the pipeline or any other means of transportation. Revenue is measured net of any royalties and state taxes.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (con't)

Income Taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to 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 by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earning (loss) per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

New standards not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after October 1, 2016 or later periods.

The following new standards, amendments and interpretations that have not been early adopted in financial statements, do not have a material effect on the Company's future results and financial position:

a) IFRS 9 Financial Instruments (New; to replace IAS 39 and IFRIC 9); and
b) IFRS 15 Revenue from Contracts with Customers.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. RECEIVABLES

	October 31, 2017	October 31, 2016
	$	$
Trade receivable	74,414	29,130
Sales tax receivable	10,203	25,502
Other receivables	3,533	13,406
Total	88,150	68,038

(Expressed in Canadian Dollars)

5. MARKETABLE SECURITIES

The Company holds 36,000 common shares of Tower Resources Plc received pursuant to a farm-in agreement that are designated as fair value through profit and loss. The shares were received during the year ended October 31, 2014 at a fair value of $298,119. The market value of the securities declined significantly since then and therefore the Company wrote the investment down to $18,183 in prior years and to $Nil at October 31, 2016, resulting in a loss of $18,183 for the year ending October 31, 2016.

6. PROPERTY AND EQUIPMENT

	Oil and Gas Properties
	$
Cost:	
As at November 1, 2015	-
Acquisition	1,634,257
Work-over expenditures	136,274
Decommissioning (Note 11)	320,795
As at October 31, 2016	2,091,326
Acquisition	2,217,069
Work-over expenditures	509,187
Decommissioning (Note 11)	182,564
As at October 31, 2017	5,000,146
Depreciation and Depletion:	
As at November 1, 2015	-
Charge for the year	94,927
As at October 31, 2016	94,927
Charge for the year	310,974
As at October 31, 2017	405,901
Net Book Value:	
At October 31, 2016	1,996,399
At October 31, 2017	4,594,245

On June 2, 2016 the Company closed an acquisition of 25% working interest in 57 oil and gas leases in Texas. The Company purchased its 25% working interest from Ponderosa Energy, LLC ("Ponderosa") for the sum of US$500,000 ($649,010). In addition, the Company paid Ponderosa's 75% working interest share of approved costs incurred in compliance with the terms of the joint operating agreement in respect of the leases, subject to a total cap of US$750,000 ($977,100). In addition, the Company advanced US $250,000 ($325,700) to Ponderosa for the Company's share of work-over expenditures and operating expenses. As at October 31, 2017, there was an advance of $107,809 (October 31, 2016 - $206,185) to Ponderosa.

On June 8, 2017, the Company closed an agreement to acquire a 25% working interest in certain additional leases owned and operated by Ponderosa. The additional properties comprise 24 leases in Texas. The Company paid Ponderosa US$1,000,000 ($1,348,376) in cash at closing. The Company also issued 2 million common shares with a fair value of $700,000 to Ponderosa in conjunction with the purchase (Note 9). A purchase price adjustment was recorded to acquisition costs on these 24 leases in the amount of $168,693 relating to revenue and expenditures assigned to the Company prior to the June 8, 2017 acquisition date.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSET

During the year ended October 31, 2016, the Company abandoned its subsidiaries through which it conducted exploration activities in Kenya. The abandonment resulted in a gain of $3,773,283 during the year ended October 31, 2016. During the year ended October 31, 2017, the Company received net cash recoveries of $128,791 related to disposed inventory of the abandoned African subsidiaries

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	October 31, 2017	October 31, 2016
	$	$
Trade payables	224,237	346,488
Accruals	71,393	20,000
Total	295,630	366,488

Included in accounts payable and accrued liabilities are amounts totaling $54,932 (2016 - $44,944) due to related parties (Note 10).

9. SHARE CAPITAL AND RESERVES

a) Authorized share capital

Unlimited number of common and preferred shares without par value.

b) Issued share capital

Shares issued during the year ended October 31, 2017

On November 10, 2016, the Company completed a non-brokered private placement and issued 8,000,000 units at a price of $0.05 per unit for gross proceeds of $400,000. Each unit consisted of one common share and one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at a price of $0.10 per share for a period of two years. In relation to this private placement the Company incurred $2,750 share issuance costs in cash. Using the residual method, no value was attributed to the warrants.

On February 23, 2017, the Company completed a non-brokered private placement and issued 3,000,000 units at a price of $0.10 per unit for gross proceeds of $300,000. Each unit consisted of one common share and one common share purchase warrant. Each full warrant gives the holder the right to purchase one additional common share at an exercise price of $0.20 for a period of one year. Using the residual method, no value was attributed to the warrants. In relation to this private placement, the Company incurred $7,500 share issuance costs in cash and issued 31,500 finders' warrants with a fair value of $5,014 using the Black-Scholes Option Pricing Model using the following assumptions: dividend yield - 0%, risk-free rate – 0.40%, volatility – 212%, forfeiture rate – 0% and expected life – 1 year.

On May 15, 2017, the Company completed a non-brokered private placement offering and issued 7,000,360 units at a price of $0.30 per unit for gross proceeds of $2,100,108. Each unit consisted of one common share and one-half common share purchase warrant. Each full warrant gives the holder the right to purchase one additional common share at an exercise price of $0.50 for a period of two years. The term of the warrants may be accelerated in the event that the issuer's shares trade at or above a price of $1.00 per share for a period of 20 consecutive days. In such case of accelerated warrants, the issuer may give notice, in writing or by way of news release, to the subscribers that the warrants will expire 45 days from the date of providing such notice. Using the residual method, no value was attributed to the warrants.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (con't)

b) Issued share capital (con't)

Shares issued during the year ended October 31, 2017 (cont'd)

On July 21, 2017, the Company received TSX Venture Exchange approval to amend the exercise price of a total of 3,500,182 outstanding common share purchase warrants related to this private placement on May 15, 2017. The exercise price of the Warrants was reduced from $0.50 to $0.35. All other terms and conditions of the warrants remained unchanged. In relation to this private placement, the Company incurred $41,781 share issuance costs in cash and issued 99,743 finders' warrants with a fair value of $35,349 using the Black-Scholes Option Pricing Model using the following assumptions: dividend yield - 0%, risk-free rate –1.22%, volatility – 183%, forfeiture rate – 0% and expected life – 2 years.

On June 8, 2017 the Company issued 2,000,000 shares with a fair value of $700,000, pursuant to the acquisition of oil and gas leases (Note 6).

On October 13, 2017, 50,000 stock options were exercised at an exercise price of $0.26 for $13,000.

During the year ended October 31, 2017, a total of 6,311,500 share purchase warrants were exercised at exercise prices varying between $0.10 - $0.50 for proceeds of $700,300.

Shares issued during the year ended October 31, 2016

There were no shares issued during the year ended October 31, 2016.

c) Stock options and warrants

On May 3, 2010, the TSX Venture Exchange accepted for filing the Company's stock option plan which was approved by the Company's shareholders. A rolling stock option plan has been implemented whereby a maximum of 10% of the issued shares will be reserved for issuance under the plan. Shareholder approval must also be obtained yearly at the Company's annual general meeting and in addition, submitted for review and acceptance by the TSX Venture Exchange each year.

Stock option and share purchase warrants transactions are summarized as follows:

	Options		Warrants	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
		$		$
Balance, October 31, 2015	820,000	0.35	5,248,688	5.45
Issued	825,000	0.10	-	-
Forfeited	(760,000)	3.20	-	-
Balance, October 31, 2016	885,000	0.62	5,248,688	5.45
Issued	1,970,000	0.23	14,631,425	0.18
Expired	(60,000)	3.25	(2,352,354)	6.00
Exercised	(50,000)	-	(6,311,500)	0.11
Balance, October 31, 2017	2,745,000	0.29	11,216,259	1.47

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (con't)

c) Stock options and warrants (con't)

As at October 31, 2017, stock options are all exercisable and outstanding as follows:

Number	Exercise price	Expiry date
	$	
75,000	3.60	October 8, 2019
750,000	0.10	June 1, 2020
970,000	0.20	February 15, 2021
950,000	0.26	June 21, 2021
2,745,000		

The weighted average price of options outstanding was $0.29 and the weighted average life was 3.18 years.

As at October 31, 2017, share purchase warrants were outstanding as follows:

Number	Exercise price	Expiry date
	$	
1,036,235	5.00	February 13, 2018
1,702,988	5.00	April 4, 2018
157,111	5.00	April 8, 2018
2,350,000	0.10	November 10, 2018
2,380,000	0.20	February 23, 2018
89,743	0.50	May 15, 2019
3,500,182	0.35	May 15, 2019
11,216,259		

The weighted average price of warrants outstanding was $1.47 and the weighted average life was 0.87 years.

Share purchase options issued during the year ending October 31, 2017

- On February 15, 2017, the Company granted 970,000 stock options to its officers, directors and consultants. The options vest immediately and are exercisable at $0.20 per share for a period of four years. The share-based payment expense related to the fair value of the options granted was $160,854 during the year ended October 31, 2017. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield - 0%, risk-free rate – 0.85%, volatility – 164%, forfeiture rate – 0% and expected life – 4 years.

- On June 21, 2017, the Company granted 350,000 stock options to its officers and directors. The options vest immediately and are exercisable at $0.26 per share for a period of four years. The share-based payment expense related to the fair value of the options granted was $75,888 during the year ended October 31, 2017. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield - 0%, risk-free rate – 1.08%, volatility – 167%, forfeiture rate – 0% and expected life – 4 years.

- On June 21, 2017, the Company granted 550,000 stock options to its consultants. The options vest over the course of three months and are exercisable at $0.26 per share for a period of four years. The share-based payment expense related to the fair value of the options granted was $171,243 during the year ended October 31, 2017. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield - 0%, risk-free rate – 1.08% to 1.32%, volatility – 167%, forfeiture rate – 0% and expected life – 4 years.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (con't)

c) Stock options and warrants (con't)

Share purchase options issued during the year ending October 31, 2017 (con't)

- Also, on June 21, 2017, the Company granted 100,000 stock options to an investor relations consultant. The options vest over the course of one year and are exercisable at $0.26 per share for a period of four years. The share-based payment expense related to the fair value of the options granted was $17,912 during the year ended October 31, 2017. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield - 0%, risk-free rate – 1.08% to 1.32%, volatility – 167%, forfeiture rate – 0% and expected life – 4 years.

Share purchase options issued during the year ending October 31, 2016

- During the year ended October 31, 2016, the Company granted 825,000 stock options to officers, consultants and directors. The weighted-average fair value of options granted and vested during the period was $0.052 per option. Total share-based payments recognized in the statement of comprehensive loss for the year ended October 31, 2016 was $42,694. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield - 0%, risk-free rate – 0.72%, volatility – 100%, forfeiture rate – 0% and expected life – 4 years.

d) Reserve

Reserve record items recognized as share-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

10. RELATED PARTY TRANSACTIONS

a) Transactions during the year

Key management personnel comprise of the Chief Executive Officer, Chief Financial Officer, and Directors of the Company. The remuneration of the key management personnel is as follows:

	October 31, 2017	**October 31, 2016**
	$	$
Management and director fees	420,000	1,024,652
Share-based payments	158,802	36,225
	578,802	1,072,702

The Company incurred the following transactions with companies that are controlled or managed by directors of the Company:

	October 31, 2017	**October 31, 2016**
	$	$
Rent	69,300	72,000
Office expenses	3,600	33,300
	72,900	105,300

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (con't)

b) Balances at year end

As at October 31, 2017, $54,932 (October 31, 2016 - $44,944) is due to related parties (Note 8). All balances are unsecured, non-interest bearing and are due on demand (Note 8).

11. DECOMMISSIONING PROVISION

Laws and regulations concerning environmental protection affect the Company's oil and gas operations. Under current regulations, the Company is required to meet performance standards to minimize environmental impact from its activities and to perform site restoration and other closure activities. The Company's provision for future site closure and reclamation costs is based on known requirements. The Company's determination of the environmental rehabilitation provision arising from the property at October 31, 2017 was $510,577 (2016: $320,795). This estimate was based upon an undiscounted future cost of $2,238,321, an annual inflation rate of 2% and risk adjusted discount rate of 3%. The closure and reclamation expenditure are expected to be incurred from 2021 to 2056.

As at October 31, the Company's provision for site reclamation and closure is as follows:

	$
Balance, October 31, 2015	-
Addition related to acquisition of oil and gas interest (Note 6)	320,795
Balance, October 31, 2016	320,795
Accretion of decommissioning liabilities	7,218
Addition related to acquisition of oil and gas interest (Note 6)	182,564
Balance, October 31, 2017	510,577

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Cash and cash equivalents and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables and accounts payable approximate their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2017, the Company had a cash balance of $590,251 to settle current liabilities of $295,630. The Company is currently investigating financing and other opportunities so that it has sufficient liquidity to meet liabilities when due.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (con't)

Financial risk factors (con't)

Liquidity risk (con't)

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to support its business model in oil and gas production in Texas and elsewhere. The core business is oil and gas production and to date has not created sufficient revenue to support the Company yet. Capital could be derived from the exercise of outstanding warrants and the completion of other equity financings. The Company has limited financial resources and has no assurance that additional funding will be available to it for future development of its projects, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and operational success of its activities. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist mainly of trade receivables. The Company has been successful in recovering receivables and believes credit risk with respect to receivables to be insignificant.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at October 31, 2017, the Company had investments in investment-grade short-term deposit certificates. Interest earned is negligible and therefore interest rate risk is very low.

b) Foreign currency risk

The majority of the Company's business is conducted in United States dollars. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar, and the US dollar. Fluctuations in the exchange rate among the Canadian dollar and the US dollar will have an adverse effect on the Company's business and financial condition. The Company does not hold significant amounts of currencies other than its functional currency. Therefore, fluctuations do not have a significant impact on operating results.

c) Price risk

The resource industry is heavily dependent upon the market price of the resources being extracted. There is no assurance that, even if commercial quantities of resources are discovered, a profitable market will exist for their sale. There can be no assurance that prices will be such that the Company's properties can be extracted at a profit. Factors beyond control of the Company may affect the marketability of any resources discovered. The price of oil has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the Company's control. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

(Expressed in Canadian Dollars)

13. CAPITAL MANAGEMENT

The Company considers capital to be the elements of shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and development of its property interests. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management.

14. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2017	2016
	$	$
Income (loss) for the year before income tax	(1,981,840)	2,293,821
Expected income tax (recovery)	(515,278)	596,393
Other differences	(1,061,882)	930,075
Change in unrecognized deductible temporary differences	1,577,160	(1,526,468)
Total income tax expense	-	-

Significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2017	2016	Expiry Dates
	$	$	
Share issuance costs	113,000	182,000	2018 – 2021
Non-capital losses	10,531,000	7,552,000	2026 – 2037
Canadian eligible capital	1,000	1,000	No expiry date
Marketable Securities	280,000	280,000	No expiry date
Exploration and evaluation assets	79,000	(1,917,000)	No expiry date
Property and equipment assets	(97,000)	1,770,000	No expiry date
Investment tax credits	6,000	6,000	2030
Capital losses	26,038,000	23,201,000	No expiry date
Decommissioning liability	511,000	321,000	No expiry date
	37,462,000	31,396,000	

15. SUBSEQUENT EVENTS

a) On December 1, 2017, the Company closed an Assignment of Oil and Gas Leases agreement in which the Company was assigned an additional 50% working interest, bringing the Company's total working interest to 75%, and 56.25% net revenue interest in two oil and gas leases, known as the "Thompson Leases", in Texas. The Company incurred certain costs related to the two leases prior to obtaining any interest and as such negligible consideration was paid by the Company for the interest assignment.

b) On January 1, 2018, the Company obtained a promissory note in the amount of $250,000 from an officer of the Company. The promissory note is unsecured, bears interest of 5% per annum compounded monthly and due six months from the date of issuance.

c) Subsequent to the year ended October 31, 2017, the Company issued a total of 1,570,000 common shares for total gross proceeds of $269,000 through the exercise of 450,000 share purchase warrants with an exercise price of $0.10 and the exercise of 1,120,000 share purchase warrants with an exercise price of $0.20.

d) On February 13, 2018, 1,036,235 warrants at an exercise price of $5 expired.