

TENTH AVENUE PETROLEUM CORP.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

TENTH AVENUE PETROLEUM CORP.

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Tenth Avenue Petroleum Corp have been prepared by and are the responsibility of management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Calgary, Alberta
August 29, 2017

TENTH AVENUE PETROLEUM CORP.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

In Canadian Dollars

As at	Note	June 30, 2017	December 31, 2016
ASSETS			
CURRENT			
Cash		\$1,862	\$ 1,442
Accounts receivable		7,896	21,733
Prepaid expenses and deposits		<u>5,302</u>	<u>6,862</u>
		\$15,060	\$ 30,037
Restricted cash held in trust	3	207,607	208,411
Property and equipment	4	<u>182,775</u>	<u>196,151</u>
		\$ 405,442	\$ 434,599
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 73,139	\$ 114,086
Asset retirement obligation	6	<u>190,215</u>	<u>190,215</u>
		\$ 263,354	\$ 304,301
Asset retirement obligation	6	<u>23,567</u>	<u>24,855</u>
Total Liabilities		\$ 286,921	\$ 329,156
SHAREHOLDERS' EQUITY			
Share capital	7	\$ 12,465,831	\$ 12,365,831
Warrants	9	--	---
Contributed surplus	8	9,659,522	9,644,362
Deficit		<u>(22,006,832)</u>	<u>(21,904,750)</u>
		118,521	<u>105,443</u>
		\$ 405,442	\$ 434,599

Going concern

Signed "Gregory J. Leia"
Gregory J. Leia Director

Signed "Craig Leggatt"
Craig Leggatt Director

The accompanying notes are an integral part of these financial statements

TENTH AVENUE PETROLEUM CORP.

INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (unaudited)

In Canadian Dollars

		FOR THE THREE MONTH ENDED		FOR THE SIX MONTHS ENDED	
	Note	June 30,2017	June 30, 2016	June 30, 2017	June 30, 2016
REVENUE					
Oil & natural gas sales		\$ 36,472	\$ 18,903	\$ 53,867	\$ 43,067
Royalties		(9,254)	(11,517)	(9,953)	(13,934)
Other revenue		<u>4,970</u>	<u>80,749</u>	<u>4,970</u>	<u>80,749</u>
		\$ 32,188	\$ 88,135	\$ 48,884	\$ 109,862
EXPENSES					
Production and transportation		22,173	8,724	32,485	16,861
General and administrative		62,018	48,696	88,860	75,863
Share based compensation	10	15,160	----	15,160	----
Depletion, depreciation and impairment		<u>7,295</u>	<u>16,495</u>	<u>13,067</u>	<u>32,990</u>
		\$ 106,646	\$ 73,915	\$ 149,572	\$ 125,714
Operating loss from continuing operations		(74,458)	14,220	(100,688)	(15,852)
Other expense items					
Interest income		----	----	----	----
Interest expense and accretion		<u>697</u>	<u>4,100</u>	<u>1,394</u>	<u>8,200</u>
Loss from continuing operations		\$ (75,155)	\$ 10,120	\$ (102,082)	\$ (24,052)
Income (loss) from discontinued operations					
Net income (loss)		\$ (75,155)	\$ 10,120	\$ (102,082)	\$ (24,052)
Foreign exchange translation adjustment					-
COMPREHENSIVE LOSS		\$ (75,155)	\$ 10,120	\$ (102,082)	\$ (24,052)
INCOME (LOSS) PER SHARE					
Basic and diluted – continuing operations		\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Basic and diluted – discontinued operations		\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.00)

The accompanying notes are an integral part of these financial statements

TENTH AVENUE PETROLEUM CORP.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED

(unaudited)

In Canadian Dollars

	Note	June 30, 2017	June 30, 2016
OPERATING ACTIVITIES			
Net income (loss)		\$ (102,082)	\$ (24,052)
Income (loss) from discontinued operations		----	4,125
Depletion and depreciation		13,067	32,990
Interest expense and accretion, non-cash		1,394	8,200
Share based compensation		15,160	-
Changes in non-cash working capital		<u>(27,117)</u>	<u>(16,483)</u>
Cash provided by (used in) operating activities - continued		\$ (99,578)	\$ 4,780
Cash used in operating activities - discontinued		-----	<u>(4,125)</u>
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		\$ (99,578)	\$ 655
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Issues of shares		100,000	
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		100,000	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		422	655
Foreign exchange on cash balances			
NET CHANGE IN CASH AND CASH EQUIVALENTS			8,925
CASH AND CASH EQUIVALENTS, beginning of period		1,440	2,469
CASH AND CASH EQUIVALENTS, end of period		\$ 1,862	\$ 3,124

The accompanying notes are an integral part of these financial statements

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

In Canadian Dollars

FOR THE SIX MONTH PERIOD ENDED

(unaudited)

	June 30, 2017	June 30, 2016
SHAREHOLDERS' EQUITY		
<u>Share capital</u>		
Balance, beginning of year	\$ 12,365,831	\$ 12,365,831
Private placement	100,000	-
Share Issue costs	--	-
Allocated to Warrants	<u> </u>	<u> </u>
Balance, end of year	\$ 12,365,831	\$ 12,365,831
<u>Warrants</u>		
Balance, beginning of year	-----	\$ 7,820
Allocated from Share Capital		-
Warrants issued		-
Balance, end of year	-----	\$ 7,820
<u>Contributed surplus</u>		
Balance, beginning of year	\$ 9,644,362	\$ 9,636,542
Warrants expired	-	7,820
Share based compensation	<u>15,160</u>	<u> </u>
Balance, end of year	\$ 9,659,522	\$ 9,644,362
<u>Accumulated other comprehensive income</u>		
Balance, beginning of year		
Foreign exchange translation adjustment		
Transfer of translation adjustment realized on discontinued operations		
Balance, end of year		-
<u>Deficit</u>		
Balance, beginning of period	\$ (21,904,750)	\$ (21,827,604)
Net loss	<u>(102,082)</u>	<u>(24,502)</u>
Balance, end of year	\$ (22,006,832)	\$ (21,852,106)
TOTAL SHAREHOLDERS' EQUITY	\$ 118,521	\$ 158,087

The accompanying notes are an integral part of these financial statements

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

Tenth Avenue Petroleum Corp (“Tenth Avenue” or the “Company”) is in the business of exploring for and developing petroleum and natural gas properties in Western Canada. Tenth Avenue is a company domiciled in Canada. The address of the Company’s registered office is 203, 221 10th Avenue SE, Calgary, Alberta.

1. GOING CONCERN

These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. The accompanying financial statements have been prepared using the going concern assumption which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As the Company incurred losses has a working capital deficit and will need capital to fund its planned operating, exploration and development activities, there is a material uncertainty which casts significant doubt on the Company’s ability to continue as a going concern. For the six months ended June 30, 2017, the Company incurred a 86,922 (June 30, 2016 - \$24,052) has a working capital deficiency of \$248,294 June 30, 2016 –June 30, 2016 - \$211,722) and an accumulated deficit of \$21,991,672 (December 2016 - \$21,904,750).

2. SIGNIFICANT ACCOUNTING POLICIES - Basis of presentation and measurement

Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements of the Company include the accounts of Tenth Avenue Petroleum Corp. and its subsidiaries (collectively referred to as (“the Company”) and have been prepared by management. These financial statements were authorized for issue by the Board of Directors on August 29, 2017.

These consolidated financial statements have been prepared on a historical cost basis.

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company’s financial statements:

(a) IFRS 15 Revenue from Contracts with Customers:

As of January 1, 2018, the Company will be required to adopt IFRS 15 Revenue from Contracts with Customers. The new standard replaces IAS 11 Construction Contracts; IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The new standard dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity’s contracts with customers. As of December 31, 2016, the Company is still determining the impact that the adoption of this standard will have on its financial statements.

(b) IFRS 9 Financial Instruments:

As of January 1, 2018, the Company will be required to adopt IFRS 9 Financial Instruments, which is the result of the first phase of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. In addition, updates have also been applied surrounding hedge accounting requirements which are now more aligned with an entity’s risk management activities. As of December 31, 2016, the Company is still determining the impact that the adoption of this standard will have on its financial statements.

(c) IFRS 16 Leases:

As of January 1, 2019, the Company will be required to adopt IFRS 16 Leases, which will replace IFRS 17 Leases. For lessees applying the new standard, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. As of December 31, 2016, the Company is still determining the impact that the adoption of this standard will have on its financial statements.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

New accounting standards not yet adopted:

The IASB issued the following standard which is relevant but has not yet been adopted by the Company:

IFRS 11 – Joint Arrangements, has been amended as of January 1, 2016. The standard now requires entities acquiring an interest in a joint operation to apply the principles of IFRS 3 as it related to business combinations. The amendments to this standard are not anticipated to have a material impact on the Company

IFRS 15 – Revenue from Contracts with Customers, provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 15 on the Company's financial statements.

IFRS 9 - Financial Instruments is intended to replace IAS 39 - Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a company can recognize the portion of the change in fair value related to the change in the company's own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 9 on the Company's financial statements

IFRS 16 – Leases is intended to replace IAS 17 – Leases and introduces a single lease accounting model which requires the recognition of assets and liabilities for most leases. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15 – Revenue from Contracts with Customers. Management is currently assessing the potential impact of the adoption of IFRS 16 on the Company's financial statements.

3. RESTRICTED CASH HELD IN TRUST

Restricted cash held in trust includes \$51,352 (2016 - \$51,352) held by the Alberta Energy and Utilities Board, \$124,629 (2016 - \$124,629) held by British Columbia Minister of Energy, Mines and Petroleum Resources and USD \$24,152 (2015 - USD \$24,152) held by the Texas Railway Commission.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

4. PROPERTY AND EQUIPMENT

	Oil and Natural Gas Assets	Water- well assets	Other assets	Total
COST OR DEMMED COST	\$	\$	\$	\$
Balance, December 31, 2015	824,380	155,800	72,678	1,052,858
Change in estimated asset retirement obligation	(4,189)	-	-	(4,189)
Balance, December 31, 2016	820,191	155,800	72,678	1,048,669
Foreign exchange and other adjustments	(343)	-	-	(343)
Balance, June 30, 2017	819,848	155,800	72,678	1,048,326
ACCUMULATED DEPLETION, DEPRECIATION				
Balance, December 31, 2015	626,718	113,146	65,403	805,267
Depletion, depreciation for the year	29,925	15,580	1,746	47,251
Balance, December 31, 2016	656,643	128,726	67,149	852,518
Depletion, depreciation for the year	4,069	7,790	1,174	13,033
Balance, June 30, 2017	660,712	136,516	68,323	865,551
CARRYING AMOUNT	\$	\$	\$	\$
December 31, 2016	163,548	27,074	5,529	196,151
June 30, 2017	159,136	19,284	4,355	182,775

5. EXPLORATION AND EVALUATION ASSETS

The following table summarizes information about the Company's exploration and evaluation assets:

Cost	
Balance, December 31, 2015	\$ 69,229
Foreign exchange	13,177
Impairment	(82,406)
Balance, December 31, 2016 and 2017	\$ -

E&E Assets consist of the Company's exploration and development projects which are pending the determination of proved and probable reserves and production. Additions represent costs incurred on E&E Assets during the period, predominantly land acquisition costs and drilling costs on the Company's first well in Texas.

The Company recognized a \$78,462 impairment on the carrying value of the U.S. Assets as of December 31, 2014 and \$82,406 as at December 31, 2015. The write down recognizes management estimate that there is no recoverable salvage value from the existing assets and management has relinquished the Mineral Leases in Texas on November 30, 2015.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

6. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total discounted cash flows to settle its asset retirement obligations are approximately \$378,305 (2016 - \$380,708). A credit-adjusted risk-free interest rate of 10.0% (2016 - 10%) and an estimated inflation rate of 1.4% (2016 - 1.4%) was used to calculate the present value of asset retirement obligations.

The following table reconciles the asset retirement obligations:

Asset Retirement Obligations	2017	2016
Balance, beginning of year	\$ 215,070	\$ 218,885
Change in estimate	-	(4,189)
Foreign exchange	(1,985)	(2,056)
Accretion expense	697	2,430
Balance, End of year	\$ 213,782	\$ 215,070
Less: current portion	(190,215)	(190,215)
Long-term portion	\$ 23,567	\$ 24,855

7. SHARE CAPITAL

Authorized:

Unlimited	Common voting shares with no par value
Unlimited	First Preferred shares, issuable in series, with rights and privileges to be determined at time of issue

Balance, December 31, 2016	6,912,667	\$ 12,365,831
Issued in period	2,000,000	\$ 100,000
<hr/>		
Balance, June 30, 2017	8,912,667	\$ 12,465,831

8. CONTRIBUTED SURPLUS

The Company's contributed surplus consists of value assigned to issued warrants and options.

The fair values of each option or warrant are established using the Black-Scholes option valuation model. The assumptions used in calculating the fair value of the options are:

Risk-free interest rate	1.00%
Expected volatility	100.00%
Expected dividend yield	0.00%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility considers the historical volatility of the Company's shares and any other features of the option grant that may impact the measurement of fair value such as market conditions. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

9. WARRANTS

The following table reflects share purchase warrants activity from January 1, 2017 to June 30, 2017 and the weighted average exercise price.

		Weighted average exercise price
	Number	
Outstanding at beginning of period	0	
Issued	2,000,000	0.075
Outstanding at end of period	2,000,000	0.075

Details of warrants outstanding at June 30, 2017:

Year	Exercise price (\$)	Number	Years to expiry
2017	0.075	2,000,000	3.0

2,000,000 share purchase warrants were issued during the period in conjunction with a private placement (see Note 10).

10. STOCK OPTIONS

The Company has a stock option plan available to directors, officers, employees and consultants. The maximum number of common shares reserved for issuance pursuant to the plan cannot exceed 10 percent of the issued and outstanding common shares. Options vest on grant, are generally exercisable for five years from the date of grant and are exercisable at prices equal to or greater than the market value of the shares at the date of the grant less the maximum discount permitted by the stock exchange. At December 31, 2016, there were an additional 313,766 common shares that are still available to be reserved for the granting of stock options.

A summary of the status of the Company's stock option plan as at June 30, 2017 and December 31, 2016 and changes during the years ending on those dates is as follows:

	June-30-17		December 31, 2016	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	377,500	0.075	686,700	0.075
Granted	510,000	-	-	-
Forfeited / Expired	-	-	(309,200)	(0.075)
Outstanding, end of year/period	887,500	0.075	377,500	0.075
Exercisable, end of year/period	887,500	0.075	377,500	0.075

Outstanding and exercisable stock options as at June 30, 2017 have a weighted average remaining contractual life of 2.51 years (2016 – 1.33 years).

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

11. RELATED PARTY TRANSACTIONS

The Company has determined that the key management personnel of the Company consists of its officers and directors. The following table provides information on compensation expense related to officers and directors.

	June 30, 2017	December 31, 2016
Wages, consulting fees and benefits	\$ 43,037	\$ 61,623
Share based compensation	15160	0

12. PER SHARE AMOUNTS

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the period of 7,912,667 (2016 - 6,912,667). As the Company was in a loss position, there was no change in the numerator or denominator in calculating diluted loss per share. The effect of all stock options and warrants has been excluded from the calculation as they are anti-dilutive.

In April 2017, the Company entered into a series of Subscription Agreements to sell 2,000,000 Units at \$0.05 per unit for aggregate subscription proceeds of \$100,000. Each Unit consists of 1 common share and 1 share purchase warrant which entitles the holder to purchase 1 common at any time within 3 years of issuance for \$0.075 per common share. The sales closed in April and May of 2017.

13. FINANCIAL INSTRUMENTS

The Company's Board of Directors and management have overall responsibility for the establishment of risk management strategies and objectives. The Company's policies are established to identify the risks faced by the Company, to set appropriate risk limits, and to monitor adherence to risk limits.

Fair value - The fair value of cash and cash equivalents, accounts receivable, deposits, restricted cash held in trust, and accounts payable and accrued liabilities approximate their carrying values due to their short term to maturity or because they bear interest at market rates.

Credit risk - Consists of cash and cash equivalents, restricted cash held in trust and accounts receivables. A portion of the Company's accounts receivable are with joint venture partners in the petroleum and natural gas industry and is subject to normal credit terms. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. The Company is also exposed to credit risk on certain deposits to the extent that the Company may not be refunded these amounts. The Company does not anticipate any default or non-performance by its oil and gas sales customers. As such a provision for doubtful accounts has not been recorded at December 31, 2016 and 2015, except as noted below:

The Company has Nil amount as uncollectable in 2017 (2016 - \$56,518).

Liquidity risk - The Company approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has to date required funds from private placements to finance capital expenditures and operations (see notes 1 and 2).

Commodity price risk - The Company is exposed to oil and gas commodity price risk and has not entered any financial derivatives to manage this risk.

Interest rate risk - the Company's exposure to interest rate risk is low.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH PERIOD ENDED JUNE 30, 2017

In Canadian Dollars

(unaudited)

14. CAPITAL DISCLOSURES

The Company's objective when managing capital is to maintain the confidence of shareholders and investors in the implementation of its business plans by maintaining sufficient levels of liquidity to fund and support its exploration and development as well as other corporate activities. The Company's capital historically has been derived from the issuance of equity or debentures. Management monitors its financial position on an ongoing basis. Equity or debentures are issued to finance drilling programs and the Company's operations (see notes 1 and 2).

15. SUBSEQUENT EVENT

On July 31, 2017 it the Company acquired oil and gas mineral rights from surface to base of the Bluesky Bullhead Group in 22 sections (gross 14,080 acres and net 9,726 acres) located near Fox Creek, Alberta. The assets consist of 8 vertical wells producing approximately 1,800 mcf/d of dry sweet natural gas and 17 b/ngl/d of NGL from the Dunvegan/Gething formations ("Waskahigan Assets"). The purchase price for the Waskahigan Assets was \$1,400,000. The acquisition was effective as of May 1, 2017. On July 31, 2017, the Company paid \$1,326,593 (cash to close based on interim statement of adjustments) which included \$41,928 in natural gas liquids inventory and \$14,000 in GST on tangibles.

Concurrent with closing, the Company entered into a Loan and Participation Agreement with Smoky Oil & Gas Corp ("Smoky") and Batoche Oil & Gas Exploration Ltd. ("Batoche"). Pursuant to the terms of the Loan and Participation Agreement ("LPA"), Smoky lent the Company the sum of \$1,326,593 to make the acquisition. The interest rate on the loan principal is 6% per annum. All obligation owing are secured by a general security agreement charging all of the assets of the Company. Subject to an agreed upon general and administrative expense payment, Smoky shall be entitled to all net cash flow from the Waskahigan Assets until the loan is repaid. While loans are outstanding, the Company shall be restricted to charging general and administrative costs to a maximum of \$75,000 per year for administration of the Waskahigan Assets and charging general and administrative costs to a maximum of \$75,000 per year for administration of the Waskahigan Participation Assets (as defined below).

The Company has agreed to farmout to Batoche the Waskahigan Assets (other than existing wells and applicable spacing units)("Waskahigan Participation Assets") on the terms and conditions set out in the Batoche Farmout Agreement. If Batoche defaults under the terms of the Batoche Farmout Agreement, and if the Company is unable to farmout to a third party, then the Company has agreed to farmout the Waskahigan Participation Assets to Smoky (if Smoky chooses to farmin) on terms and conditions equivalent to the farmout terms set out in Batoche Farmout Agreement. The Batoche Farmout Agreement contains a 3 well requirement to earn a 70% working interest in all Waskahigan Participation Asset mineral rights. The Batoche Farmout Agreement requires Batoche to be drill ready (Well #1) by June 30, 2019. Terms are: Batoche is to pay 100% of all costs to drill, complete and equip Well #1 to earn 70% in spacing unit associated with Well #1 subject to payout. The working interest participants are required to pay their proportionate share of Well #2 and Well #3. If Batoche drills Well #2, Batoche will earn 70% in the spacing unit associated with Well #2. If Batoche drills Well #3, Batoche will earn 70% working interest in all Waskahigan Participation Assets and any other lands acquired by the Company in Waskahigan area. Assuming Batoche earns 70% working interest in the Waskahigan Participation Assets, the Company will have a 6% working interest and Smoky will have a 24% working interest in the 3 wells and future developments.

Pursuant to the LPA, as additional consideration, Smoky shall be entitled to receive: (a) 80% of net cash flow from the Waskahigan Assets (less agreed general and administrative expenses) until December 31, 2021 (subject to farmout rights); (b) 80% of net sale proceeds of Waskahigan Assets (subject to farmout rights); (c) right to compel the Company to buy Smoky's right to 80% of the net cash flow from the Waskahigan Assets (subject to farmout rights) for 2.5 times net cash flow; and (d) right to compel the Company to buy Smoky's right to 24% of the net cash flow from the Waskahigan Participation Assets (subject to farmout rights) for 2.5 times net cash flow from the Waskahigan Participation Assets. The Company shall have the right to: (a) right to compel Smoky to sell its right to 80% of the net cash flow from the Waskahigan Assets (subject to farmout rights) for 2.5 times net cash flow; and (d) right to compel Smoky to sell its right to 24% of the net cash flow from the Waskahigan Participation Assets for 2.5 times net cash flow from the Waskahigan Participation Assets.