# WESCAN ENERGY CORP.

## CONDENSED INTERIM
## CONSOLIDATED FNANCIAL STATEMENTS

**THIRD QUARTER REPORT**

**For the three and nine months ended**

**December 31, 2019**

(Expressed in Canadian Dollars)

(Unaudited)

## NOTICE TO READER

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 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 the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

**WesCan Energy Corp.**
**Condensed Interim Consolidated Statements of Financial Position**
(Expressed in Canadian Dollars – unaudited)

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| | $ | $ |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 480,542 | 528,452 |
| Trade and other receivables (Note 4) | 118,552 | 187,361 |
| Prepaid expenses and deposits | - | 10,430 |
| Total current assets | 599,094 | 726,243 |
| Non-current assets | | |
| Oil and gas properties (Note 5) | 5,916,638 | 6,230,247 |
| Office Equipment | 2,753 | - |
| Total non-current assets | 5,919,391 | 6,230,247 |
| TOTAL ASSETS | 6,518,485 | 6,956,490 |
| LIABILITIES | | |
| Current liabilities | | |
| Trade and other payables | 909,335 | 793,178 |
| Payable to related parties (Note 6) | 178,397 | 213,366 |
| Convertible loans payable (Note 7) | 692,807 | 767,790 |
| Current portion of decommissioning provision (Note 8) | 60,448 | 60,448 |
| Total current liabilities | 1,840,987 | 1,834,782 |
| Non-current liabilities | | |
| Decommissioning provision (Note 8) | 1,648,386 | 1,625,586 |
| Total liabilities | 3,489,373 | 3,460,368 |
| SHAREHOLDERS` EQUITY | | |
| Share capital (Note 9) | 13,591,517 | 13,591,517 |
| Equity reserves (Note 9) | 1,538,240 | 1,538,240 |
| Deficit | (12,100,645) | (11,633,635) |
| Total shareholders` equity | 3,029,112 | 3,496,122 |
| TOTAL LIABILITIES AND SHAREHOLDERS` EQUITY | 6,518,485 | 6,956,490 |

**Approved and authorized for issue on behalf of the Board of Directors:**

**"Greg T. Busby"**
Greg Busby, Director

**"Richard D. Orman"**
Richard D. Orman, Director

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

**WesCan Energy Corp.**
**Condensed Interim Consolidated Statements of Comprehensive Loss**
**For the three months and nine months ended**
(Expressed in Canadian Dollars – unaudited)

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $ | $ | $ | $ |
| REVENUE | | | | |
| Petroleum and natural gas sales | 326,376 | 283,808 | 1,187,975 | 1,463,886 |
| Less: royalties | (29,407) | (37,780) | (108,660) | (146,009) |
| | 296,969 | 246,028 | 1,079,315 | 1,317,877 |
| EXPENSES | | | | |
| Operating costs | 249,228 | 358,329 | 826,149 | 929,543 |
| Depletion and accretion | 86,574 | 101,388 | 336,906 | 415,688 |
| Genral and administrative | 109,590 | 99,525 | 356,435 | 359,379 |
| | 445,392 | 559,242 | 1,519,490 | 1,704,610 |
| **Net loss from operating activities** | (148,423) | (313,214) | (440,175) | (386,733) |
| **Other income (expenses)** | | | | |
| Finance and Interest expense | (9,158) | (640) | (26,835) | (9,674) |
| **Net gain (loss) and comprehensive gain (loss)** | **(157,581)** | **(313,854)** | **(467,010)** | **(396,407)** |
| Basic and diluted loss per share (note 9 (f)) | ($0.01) | ($0.01) | ($0.01) | ($0.01) |
| Weighted average number of common shares outstanding | 31,359,658 | 31,359,658 | 31,359,658 | 31,359,658 |

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

**WesCan Energy Corp.**
**Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)**
**For the three and nine months ended**
(Expressed in Canadian Dollars – unaudited)

**December 31, 2019**

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount $ | Equity Reserves $ | Deficit $ | Total $ |
| **Balance at March 31, 2019** | 31,359,658 | 13,591,517 | 1,538,240 | (11,633,635) | 3,496,122 |
| Net loss for the period | - | - | - | (467,010) | (467,010) |
| **Balance at September 30, 2019** | 31,359,658 | 13,591,517 | 1,538,240 | (12,100,645) | 3,029,112 |

**December 31, 2018**

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount $ | Equity Reserves $ | Deficit $ | Total $ |
| **Balance at March 31, 2018** | 31,359,658 | 13,170,267 | 1,538,240 | (11,041,255) | 3,667,252 |
| Share isse for debt (Note 9) | - | 421,250 | - | - | 421,250 |
| Net loss for the period | - | - | - | (396,407) | (396,407) |
| **Balance at September 30, 2018** | 31,359,658 | 13,591,517 | 1,538,240 | (11,437,662) | 3,692,097 |

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

**WesCan Energy Corp.**
**Condensed Interim Consolidated Statements of Cash Flows**
**For the three and nine months ended**
(Expressed in Canadian Dollars – unaudited)

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $ | $ | $ | $ |
| **Operating activities** | | | | |
| Net gain (loss) | (157,581) | (313,854) | (467,010) | (396,407) |
| **Non-cash items:** | | | | |
| Depletion | 72,275 | 93,188 | 264,949 | 348,636 |
| Depreciation | 6,699 | - | 49,157 | 42,452 |
| Accretion | 7,600 | 8,200 | 22,800 | 24,600 |
| Interest expense | 9,158 | 640 | 26,835 | 9,674 |
| | (61,849) | (211,826) | (103,269) | 28,955 |
| **Change in non-cash working capital items:** | | | | |
| Increase in trade and other receivables | 11,314 | 145,225 | 68,809 | 51,916 |
| Increase in prepaid expenses and deposit | 3,478 | 4,778 | 10,430 | 9,560 |
| Increase (decrease) in trade and other payables | 38,316 | 17,919 | 116,157 | 35,358 |
| **Net cash provided by (used in) operating activities** | (8,741) | (43,904) | 92,127 | 125,789 |
| **Investing activities** | | | | |
| Purchase of equipment | (3,250) | - | (3,250) | - |
| Expenditures on oil and gas properties | - | - | - | - |
| **Net cash used in investing activities** | (3,250) | - | (3,250) | - |
| **Finance activities** | | | | |
| Share subscription received | - | 7,500 | - | 421,250 |
| Loans received, net of repayments | (35,818) | - | (101,818) | (191,598) |
| Advances from (payments to) related parties | 10,805 | (4,109) | (34,969) | (80,044) |
| **Net cash provided by financing activities** | (25,013) | 3,391 | (136,787) | 149,608 |
| **Change in cash and cash equivalents** | (37,004) | (40,513) | (47,910) | 275,397 |
| Cash and cash equivalents, beginning of period | 517,546 | 716,318 | 528,452 | 400,408 |
| **Cash and cash equivalents, end of period** | **480,542** | **675,805** | **480,542** | **675,805** |

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

## 1. REPORTING ENTITY AND GOING CONCERN

### Reporting entity

WesCan Energy Corp. ("WesCan" or the "Company") changed its name from Great Pacific International Inc. effective October 4, 2012. WesCan was incorporated on November 4, 1993 under the Business Corporations Act (Alberta), Canada. WesCan is a junior public resource company in the business of oil and gas exploration, development and production with oil and gas operations and property interests in Alberta, Canada and Texas, U.S.A. The common shares of WesCan trade on the TSX Venture Exchange ("TSX-V") under the symbol WCE. The Company's registered office and mailing address is, Suite 2500, 520 – 5th Avenue S.W., Calgary, Alberta T2P 3R7.

### Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning that it will continue in operation for the foreseeable future and it will be able to realize assets and discharge liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

At December 31, 2019 the Company had a working capital deficiency of $1,241,893 and an accumulated deficit of $12,100,645 since inception. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Accordingly, external financing will be required in order for the Company to continue as a going concern. In order to continue as a going concern, meet property payments, participation and lease obligations, discharge all liabilities and meet all commitments, the Company will need to raise additional funds through equity financing(s) during the next fiscal year.

Furthermore, the Company will require additional financing to carry out the petroleum exploration and development required to offset production declines, increase oil and gas reserves and achieve a self-sustaining level of revenue. Management is actively pursuing new financings; however, there can be no assurance that it will be able to raise sufficient funds on acceptable terms. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate.

## 2. BASIS OF PRESENTATION

### Basis of presentation

a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved for issuance by the Board of Directors on February 21, 2020.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for share-based payment transactions and financial instruments, which are measured at fair value, as explained in Note 3.

## 2. BASIS OF PRESENTATION (Cont'd)

c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Significant accounting estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

**New accounting standards adopted by the Company**

*New accounting standards to be adopted April 1, 2019*

IFRS 16 Leases:

IFRS 16, "Leases" will be effective for accounting periods on or after January 1, 2019. This standard sets out a new model for lease accounting, bringing off-balance sheet leasing arrangements onto the balance sheet. The Company will adopt IFRS 16 in its financial statements for the annual period beginning on April 1, 2019. 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 April 1, 2019, the Company adopted IFRS 16 Leases, which replaced IAS 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.

The adoption of this standard is not expected to have a material effect on the Company's future results and financial position.

## 4. TRADE AND OTHER RECEIVABLES

Amounts presented as trade and other receivables consist of the following balances:

| | December 31, 2019<br>$ | March 31, 2019<br>$ |
|---|---|---|
| Trade receivables from oil and gas property operators | 118,552 | 187,131 |
| Other receivables | - | 230 |
| **Total** | **118,552** | **187,361** |

**(Expressed in Canadian Dollars)**

## 5. OIL AND GAS PROPERTIES

| **Cost** | $ |
|---|---|
| As at March 31, 2018 | 8,281,590 |
| Change in decommissioning liabilities (Note 8) | 73,272 |
| As at March 31, 2019 | 8,354,862 |
| **As at December 31, 2019** | **8,354,862** |

| **Depletion, depreciation and impairment** | $ |
|---|---|
| As at March 31, 2018 | (1,645,057) |
| Depletion and depreciation | (479,558) |
| As at March 31, 2019 | (2,124,615) |
| Depletion and depreciation | (313,609) |
| **As at December 31, 2019** | **(2,438,224)** |

| **Net book value** | $ |
|---|---|
| As at March 31, 2018 | 6,636,533 |
| As at March 31, 2019 | 6,230,247 |
| **As at December 31, 2019** | **5,916,638** |

## 6. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances entered into during the period ended December 31, 2019 and 2018 not disclosed elsewhere in these consolidated financial statements are as follows:

**Payable to related parties**

Balances due to related parties consists of amounts owing to officers, directors (or to persons related to them or companies controlled by them) for services, travel expenses, and advances. These amounts are non-interest bearing, unsecured and due on demand, unless otherwise noted.

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| | $ | $ |
| Related party payable for services | **178,397** | **213,366** |

## 7. LOANS PAYABLE AND CONVERTIBLE LOANS PAYABLE

At December 31, 2019, the Company has short-term convertible loans payable to unrelated parties in the amount of $692,807 (March 31, 2019 - $767,790). These loans are due on demand, bear interest up to 10% per annum and are unsecured. During the quarter ended December 31, 2019, the Company made repayments of $27,000. The loans are convertible into equity at the option of both the Company and its Lenders. As a result, the Company is unable to estimate the allocation of value between the debt and the equity component, therefore, no value is ascribed to the equity component on the convertible aspect of these loans.

**(Expressed in Canadian Dollars)**

## 8. DECOMISSIONING PROVISION

The following table presents the reconciliation of the opening and closing aggregate carrying amounts of the decommissioning provision associated with the Company's oil and gas properties:

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| | $ | $ |
| Balance, beginning of the year | 1,686,034 | 1,579,962 |
| Accretion | 22,800 | 32,800 |
| Change in estimates | - | 73,272 |
| Balance, end of year | 1,708,834 | 1,686,034 |
| Less: current portion | (60,448) | (60,448) |
| **Long-term portion** | **1,648,386** | **1,625,586** |

The present value of the decommissioning obligation of $1,686,034 (2018 - $1,579,962) was calculated using an average risk-free rate of 1.96% (2018 – 2.25%) and inflation rate of 1.78% (2018 – 1.78%). The weighted average life of wells has been estimated at approximately 24 years (2018 – 23 years). At December 31, 2019, the undiscounted value of the obligation is $1,979,000 (March 31, 2019 – $1,966,400). Reclamation activities are expected to occur between 2020 and 2043.

## 9. SHARE CAPITAL

Shares authorized, issued and outstanding at December 31, 2019 are as follows:

### a) Authorized

An unlimited number of common shares without par value
An unlimited number of preferred shares without par value

### b) Issued

| | Number of common shares | Amount $ |
|---|---|---|
| **Balance at March 31, 2019 and 2018** | 21,753,991 | 12,899,689 |
| Shares issued for debt settlement (i) | 2,939,000 | 202,920 |
| Shares issued for private placement (ii) | 6,666,667 | 500,000 |
| Share issuance costs | - | (11,092) |
| **Balance at December 31, 2019** | 31,359,658 | 13,591,517 |

On March 8, 2018, the Company completed a non-brokered private placement, issuing 6,666,667 units at $0.075 per unit for total proceeds of $500,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share for a period of 24 months from the closing date at an exercise price of $0.10 per share. The Company incurred share issuance costs of $11,092 and issued 73,500 finders warrants in connection with the private placement. Each finders warrant will entitle the holder to purchase one common share for a period of 24 months from the closing date at an exercise price of $0.10 per share.

**(Expressed in Canadian Dollars)**

## 9. SHARE CAPITAL (Cont'd)

### c) Equity reserves

Equity reserve items are recognized as share-based payment expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

### d) Share Purchase Warrants

A summary of share purchase warrants issued and exercised during the period ended December 31, 2019 and March 31, 2019 is as follows:

| | December 31, 2019 | | March 31, 2019 | |
|---|---|---|---|---|
| | Number of warrants | Weighted Average Exercise Price per warrant $ | Number of warrants | Weighted Average Exercise Price per warrant $ |
| Balance, beginning of year | 6,740,167 | 0.10 | 6,740,167 | 0.10 |
| Issued | - | - | - | - |
| **Balance, outstanding and exercisable, end of period** | **6,740,167** | **0.10** | **6,740,167** | **0.10** |

All of the above warrants expire on March 8, 2020

### e) Stock options

The Company has established a stock option plan under which it may grant stock options totaling in aggregate up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to officers, directors, regular employees and persons providing investor-relations or consulting services up to a limit of 5% and 2% respectively of the Company's total number of issued and outstanding shares per year. The option price must be greater or equal to the discounted market price on the grant date and the option expiry date cannot exceed 10 years from the grant date. The stock options vest immediately on the date of the grant or over a period of time as determined by the Board of Directors.

A summary of share purchase options cancelled, granted and exercised during the period ended December 31, 2019 and March 31, 2019 is as follows:

| | December 31, 2019 | | March 31, 2019 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Balance, beginning of year | - | - | 1,300,000 | 0.06 |
| Expired | - | - | (1,300,000) | 0.06 |
| **Balance, end of year** | - | - | - | - |

**(Expressed in Canadian Dollars)**

## 9. SHARE CAPITAL (Cont'd)

### f) Earnings (loss) per share

The diluted earnings per share calculation includes the impact of all warrants and stock options outstanding during the year. At March 31, 2019 and 2018, all warrants and stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive.

## 10. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, capital market risk and liquidity risk, interest rate risk, commodity price risk and foreign exchange risk.

Financial instruments, consisting of trade and other receivables, trade and other payables, balances payable to related parties and former related parties and convertible loans payable are recorded at amortized cost. Cash and cash equivalents are recorded at fair value using Level 1 measurements. Fair value of the Company's other financial instruments are estimated using Level 2 measurements.

| | | December 31, 2019 | | March 31, 2019 | |
|---|---|---|---|---|---|
| | Financial instrument classification | Carrying Value $ | Estimated Fair value $ | Carrying Value $ | Estimated Fair value $ |
| **Financial assets** | | | | | |
| Cash and cash equivalents | Fair value through profit or loss | 480,542 | 480,542 | 528,452 | 528,452 |
| Trade and other receivables | Amortized cost | 118,552 | 118,552 | 187,361 | 187,361 |
| **Financial liabilities** | | | | | |
| Trade and other payables | Amortized cost | 909,335 | 909,335 | 793,178 | 793,178 |
| Payable to related parties | Amortized cost | 178,397 | 178,397 | 213,366 | 213,366 |
| Convertible loans payable | Amortized cost | 692,807 | 692,807 | 767,790 | 767,790 |

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy as following:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date for similar assets and liabilities.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assets measured at fair value on a recurring basis were presented on the Company's consolidated statement of financial position as of December 31, 2019 are as follows:

**(Expressed in Canadian Dollars)**

## 10. FINANCIAL INSTRUMENTS (Cont'd)

| | Balance at December 31, 2019 | Quoted Prices in Active Markets For Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Assets: | | | | | |
| Cash and cash equivalents | 480,542 | 480,542 | - | - | 480,542 |

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is attributable to cash and cash equivalents and trade and other receivables. Cash and cash equivalents are held in demand accounts at a Canadian chartered bank. The Company does not believe it is subject to any significant counterparty risk with respect to cash and cash equivalents.

Trade receivables typically arise from normal joint operating arrangements governing the Company's producing oil and gas properties and from cost-recovery billings. Credit valuations are performed on a regular basis and the consolidated financial statements take into account any requirement for an allowance for bad debts.

The carrying amount of trade and other receivables and cash and cash equivalents represents the maximum credit exposure. The Company has an allowance for doubtful accounts of $10,160 as at December 31, 2019 (2018 - $10,160).

*Capital market risk and liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company aims to ensure that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. The Company faces material liquidity risk in that it has approximately $1,088,000 in accounts payable and payable to related parties which are overdue at December 31, 2019, a working capital deficiency of $1,241,893 and insufficient cash on hand to satisfy its debts should they be demanded (see Note 1).

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Contractual undiscounted cash flow requirements for contractual obligations as at December 31, 2019 are due as follows:

| | Due in 1-3 months | Due in 4-12 months | Due in 1-2 years | Due in >2 years | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 909,335 | - | - | - | 909,335 |
| Payable to related parties | 178,397 | - | - | - | 178,397 |
| Convertible loans payable | 692,807 | - | - | - | 692,807 |
| | **1,780,539** | **-** | **-** | **-** | **1,780,539** |

## 10. FINANCIAL INSTRUMENTS (Cont'd)

*Interest rate risk*

The Company's loans payable bear interest at a fixed rate. The Company does not believe its overall exposure to interest rate risk is significant and a 1% change in the interest rate would have an insignificant effect on net loss and comprehensive loss.

*Commodity price risk*

The Company is exposed to material oil and gas commodity price risk. A relative decrease in the price of oil and gas would reduce the Company's cash flows, reduce the realizable market value of the Company's oil and gas assets, reduce the Company's economic reserves, and make it more difficult for the Company to raise the equity capital required to meet its commitments and carry out its development-stage business plans. Management has assessed that the Company's degree of exposure to commodity price risk is material, but consistent with oil and gas business operations.

The Company's operational results and financial position are materially impacted by global financial and commodity market volatility over which it has no control. The following sensitivity analysis is suggestive of ways in which the financial results of the Company may reasonably be expected to be directly impacted by volatility in those markets:

(i) The Company is not exposed to significant foreign currency risk on its US dollar denominated assets and financial liabilities. At December 31, 2019, the Canadian dollar cost of paying the Company's US dollar denominated liabilities and property payment commitments would increase by approximately $nil with a 1% increase in the value of the US dollar relative to the Canadian dollar.

(ii) Oil and gas revenues would not be significantly impacted by changes in oil and natural gas prices. As at December 31, 2019 for a 1% increase/decrease in the price of oil and gas, revenue would increase/decrease by approximately $3,000 per quarter based upon December 2019 prices and volumes.

Commodity price risk affects the Company beyond its impact on realized revenue. In particular, the Company's future ability to raise capital for development stage activities is affected by, among many other factors, the price of oil and gas. Furthermore, changes in commodity prices will also affect the price of oil and gas leases, as well as exploration and drilling services and operating costs. Changes in oil and gas prices will also determine the Company's ultimate recoverable reserves.

*Foreign exchange risk*

The Company currently generates approximately 0.3% of its gross revenue from a natural gas well in the USA with a carrying value of $1,084. Oil and gas tend to be priced in US dollars therefore a decrease in the value of the US dollar would have an immaterial impact on the results of operations.

## 11. CAPITAL MANAGEMENT

The primary capital management objective of the Company is to ensure adequate working capital is available to fund both the board-approved business development plans (i.e. oil and gas exploration and development) and the working capital requirements of each annual operating cycle, while also seeking to minimize the risk-adjusted cost of capital.

Capital is raised and retained for the purposes and to the extent necessary to fund exploration, development and corporate overhead costs, subject to the availability of financing on acceptable terms. Given its objectives, the Company determines the amount of capital to be raised and retained based on the scope of its planned exploration activities and management's assessment of the expected availability of acceptably priced capital in future periods.

## 11. CAPITAL MANAGEMENT (Cont'd)

The Company defines capital as shareholders' equity. As the Company's major asset class – oil and gas properties without significant production – is highly illiquid, requiring significant additional expenditures to be fully monetized and as the Company is not yet earning net income from oil and gas operations, management of externally financed working capital is, by necessity, a major function of the Company's capital management program. The chief source of working capital is equity financing obtained through the sale of common shares and share purchase warrants and the exercise of warrants and options. The Company from time to time receives loans from related and unrelated parties and trade credit, but such financial instruments are typically only supplementary to equity financings. In any case, the Company does not consider debt to be a sustainable source of capital, as in the absence of positive cash flows from operations; any debt obtained must be retired with funds raised through equity financing.

The Company's capital management plan seeks to ensure adequate resources are available to fund its activities through the balance of the current fiscal year. A significant measure used in assessing capital adequacy is the expected number of days of operations that can be funded from current working capital. Capital levels are deemed sufficient if they can fund the balance of the annual exploration season and development goals and fund corporate overhead expenses in the near term. The Company lacks sufficient capital to carry out development or fund its corporate overhead expenses through the year ended March 31, 2019. Management must seek one or more equity financings to finance activities in future periods. Additional capital raised will be invested primarily in oil and gas exploration and development activities.

Financing and capital spending on exploration will generally be limited to the extent that capital is available on acceptable terms. The acceptability of financing terms is generally determined by reference to the prevailing market price of the Company's shares. In addition, the terms on which the Company obtains financings are subject to the guidelines of the TSX-V.

The Company is not subject to material externally imposed capital constraints.