MOUNTAINVIEW ENERGY LTD.

Q3 2015 Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2015 and 2014

Expressed in US Dollars

Unaudited

MOUNTAINVIEW ENERGY LTD.
Condensed Consolidated Statements of Financial Position
(Expressed in US Dollars and Unaudited)

	Notes	September 30, 2015	December 31, 2014
ASSETS			
Cash at bank		$ 408,106	$ 569,024
Trade and other receivables	3	1,194,560	5,271,777
Other assets	4	100,663	1,069,055
Total current assets		1,703,329	6,909,856
Non-current assets			
Reclamation deposits		251,798	267,880
Exploration and evaluation	5	-	2,736,702
Property, plant and equipment	6	34,031,220	45,064,848
TOTAL ASSETS		**$ 35,986,347**	**$ 54,979,286**
LIABILITIES			
Trade payables and other liabilities	7	$ 20,512,202	$ 18,988,006
Term loan	9	8,488,266	8,660,000
Credit facility	9	51,682,654	50,539,132
Promissory notes payable	9	11,769,584	-
Convertible debenture	8	2,380,861	-
Current portion of long-term debt	9	66,365	126,319
Total current liabilities		94,899,932	78,313,457
Non-current liabilities			
Long-term debt	9	89,126	264,723
Promissory notes payable	9	-	10,690,020
Convertible debenture	8	-	2,299,809
Decommissioning obligations	10	2,399,389	2,512,516
TOTAL LIABILITIES		97,388,447	94,080,525
SHAREHOLDERS' DEFICIENCY			
Common shares	11	24,878,505	24,878,505
Convertible common shares	11	2,558,126	2,558,126
Contributed surplus	11	5,300,237	5,309,919
Accumulated deficit		(94,138,968)	(71,847,789)
TOTAL SHAREHOLDERS' DEFICIENCY		(61,402,100)	(39,101,239)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		**$ 35,986,347**	**$ 54,979,286**

Going Concern Note 1

See accompanying notes to the condensed consolidated financial statements

On behalf of the Board of Directors:

Patrick M. Montalban (signed) *Keith Macdonald (signed)*

MOUNTAINVIEW ENERGY LTD.
Condensed Consolidated Statements of Comprehensive Loss
(Expressed in US Dollars and Unaudited)

	Notes	Three Months Ended September 30 2015	Three Months Ended September 30 2014	Nine Months Ended September 30 2015	Nine Months Ended September 30 2014
Revenues					
Oil and natural gas sales		$ 897,330	$ 5,882,531	$ 4,568,520	$ 19,000,351
Miscellaneous revenue		34,665	19,712	102,661	89,744
Royalties		(140,805)	(1,202,035)	(788,233)	(3,529,355)
Revenues, net of royalties		791,190	4,700,208	3,882,948	15,560,740
Expenses					
Production taxes		$ 104,807	$ 485,339	$ 416,616	$ 1,675,352
Lease operating costs		689,658	2,136,644	3,496,455	6,027,277
General and administrative		300,160	717,594	1,374,788	2,034,048
Depletion and depreciation	6	736,333	1,442,743	2,752,191	4,365,733
Foreign exchange gain (loss)		16,805	(82,861)	7,382	(73,281)
Loss (gain) on disposal of PP&E	6	31,799	(395,878)	103,374	(404,973)
Impairment of oil and natural gas properties	6	5,776,000	-	5,776,000	-
Exploration and evaluation impairment	5	4,221	-	882,429	-
Exploration and evaluation expiries	5	-	672,547	1,785,177	5,363,868
Share-based compensation	11	11,134	105,966	(9,682)	317,896
		7,670,917	5,082,094	16,584,730	19,305,920
Loss from operations		(6,879,727)	(381,886)	(12,701,782)	(3,745,180)
Other (income) expense					
Bad debt	3	1,015,446	-	3,066,900	-
Other realized loss		25,670	-	655,670	-
Finance income		(97)	(747)	(866)	(2,456)
Finance expense		1,717,879	1,681,397	5,748,825	5,648,973
Loss (gain) on derivatives	18	-	(424,077)	118,868	56,196
		2,758,898	1,256,573	9,589,397	5,702,713
Loss before income taxes		(9,638,625)	(1,638,459)	(22,291,179)	(9,447,893)
Recovery of current tax	19	-	-	-	-
Net loss and comprehensive loss		**$ (9,638,625)**	**$ (1,638,459)**	**$ (22,291,179)**	**$ (9,447,893)**
Net loss per share					
Basic and diluted		**$ (0.11)**	**$ (0.02)**	**$ (0.25)**	**$ (0.11)**
Weighted average number of common shares outstanding	11	87,820,443	87,820,443	87,820,443	87,820,443

See accompanying notes to the condensed consolidated financial statements

MOUNTAINVIEW ENERGY LTD.
Condensed Consolidated Statements of Changes in Equity
(Expressed in US Dollars and Unaudited)

	Notes	Common Shares	Convertible Common Shares	Contributed Surplus	Retained Deficit	Total Equity
Balance at December 31, 2014		$ 24,878,505	$ 2,558,126	$ 5,309,919	$ (71,847,789)	$ (39,101,239)
Share-based compensation	11	-	-	(9,682)	-	(9,682)
Net loss for the period		-	-	-	(22,291,179)	(22,291,179)
Balance at September 30, 2015		$ 24,878,505	$ 2,558,126	$ 5,300,237	$ (94,138,968)	$ (61,402,100)

	Notes	Common Shares	Convertible Common Shares	Contributed Surplus	Retained Deficit	Total Equity
Balance at December 31, 2013		$ 24,945,036	$ 2,558,126	$ 4,919,309	$ (17,500,630)	$ 14,921,841
Share-based compensation	11	-	-	317,896	-	317,896
Share issuance costs		(66,531)				(66,531)
Net loss for the period		-	-	-	(9,447,892)	(9,447,892)
Balance at September 30, 2014		$ 24,878,505	$ 2,558,126	$ 5,237,205	$ (26,948,522)	$ 5,725,314

See accompanying notes to the condensed consolidated financial statements

MOUNTAINVIEW ENERGY LTD.
Condensed Consolidated Statements of Cash Flows
(Expressed in US Dollars and Unaudited)

		Nine Months Ended September 30,	
	Notes	**2015**	**2014**
Operating			
Net and comprehensive loss		$ (22,291,179)	$ (9,447,893)
Items not affecting cash:			
Depletion and depreciation	6	2,752,191	4,365,733
Exploration and evaluation impairment	5	882,429	-
Bad debt		3,066,900	-
Share-based compensation	11	(9,682)	317,896
Loss on disposal of property, plant and equipment		103,374	(404,973)
Impairment of oil and natural gas properties		5,776,000	-
Other realized loss		655,670	-
Exploration and evaluation expiries	5	1,785,177	5,363,868
Unrealized loss on derivatives	18	879,932	(178,473)
Unrealized gain on foreign exchange		-	(66,531)
Changes in working capital	15	1,057,843	(7,684,441)
		(5,341,345)	(7,734,813)
Financing			
Proceeds from line of credit		-	20,000
Repayments on term loan	9	(171,734)	-
Proceeds from credit facility borrowings	9	-	13,218,423
Repayments on credit facility borrowings	9	(4,789)	(3,042,573)
Proceeds from long term debt		-	106,371
Repayments on long term debt	9	(235,551)	(84,351)
Finance expense		3,965,543	2,181,124
		3,553,469	12,398,994
Investing			
Exploration and evaluation expenditures		-	(475,785)
Property, plant and equipment expenditures		(1,350,255)	(21,569,340)
Proceeds from property, plant and equipment disposal		253,642	400,000
Short-term investments		-	(104)
Reclamation bond		15,000	-
Interest income		1,082	-
Changes in non-cash investing	15	2,707,490	12,839,908
		1,626,958	(8,805,320)
Change in cash		(160,918)	(4,141,139)
Cash, beginning of year		569,024	5,409,820
Cash, end of quarter		**$ 408,106**	**$ 1,268,681**

See accompanying notes to the condensed consolidated financial statements

(Expressed in US Dollars and Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Mountainview Energy Ltd. ("Mountainview" or "the Company") was incorporated under the laws of the Province of British Columbia, Canada and was continued into the Province of Alberta in May, 2012. Its principal business is the exploration, acquisition, development and production of petroleum and natural gas reserves in the State of Montana, and the State of North Dakota, USA. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "MVW" and the Company's head office is located at 33 First Avenue SW, Cut Bank Montana, 59427-0222, U.S.A.

The Company had the following direct and indirect wholly-owned subsidiaries at September 30, 2015:

Mountainview Energy (USA) Ltd.	Montana, United States
Mountain View Energy, Inc.	Montana, United States
Mountainview Energy, LLC	Delaware, United States
Mountain Divide, LLC	Montana, United States
Numbers, Inc.	Montana, United States
Mountainview Gathering Inc.	Montana, United States
Immgen Inc.	Alberta, Canada
DBD Investments Inc.	Alberta, Canada
MC2 Inc.	Alberta, Canada

These interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to discharge its obligations and realize on its assets in the normal course of operations for the foreseeable future.

The Company has experienced losses for the nine month period ended September 30, 2015 and year ended December 31, 2014 of $22 million and $54 million respectively. At September 30, 2015 and December 31, 2014, the Company had a deficit of $94 million and $72 million respectively, and a working capital deficit of $93 million and $71 million respectively. Continuing operations, as intended, are dependent on management's ability to raise required funding through future equity issuances, credit facilities, asset sales, settlement of debts with creditors, reductions to general and administrative and operating expenses or a combination thereof, which is not assured, especially in current volatile and uncertain financial and commodity price environment. The sharp decline in commodity prices during the latter half of 2014 and which continued through 2015 materially reduced the revenues that were generated from the sale of oil and gas production volumes during these periods which, in turn, negatively affected the Company's working capital balance and the ability of the Company to secure additional financing. There is potential for future commodity prices to remain at current price levels for an extended period of time and should the current commodity price environment continue for a prolonged period of time, the Company will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, debt restructuring, equity financing or other capital raising effort in order to fund its operations and to service its existing debt during the next twelve months. In addition, liens in the aggregate amount of $8.1 million have been filed on the Company's assets.

While these liens do not presently impact cash flow, the vendors who have filed the liens may, in fact, restrict cash flow from the wells under lien, further reducing the cash flow available to the Company. Any sale of assets with outstanding liens would require that the lien be cleared before title can be transferred. This condition also limits the proceeds of any potential asset sale.

The Company is also in breach of debt covenants under the agreements governing the term loan and credit facility (Note 9). The term loan was due on November 1, 2015 and remains unpaid. The Company's credit facility has matured July 1, 2015 and remains unpaid, triggering a default event. The issuing banks have not enacted any of their remedies under the debt agreement at this time, however have specifically reserved all their available rights and remedies. Should the issuing banks enact the available remedies, two subsidiaries of the Company could face immediate decisions on how to proceed as stand-alone companies which could include bankruptcy petition filings. Management continues to negotiate change in terms agreements with the issuing banks, however the agreements have not been finalized.

Management of the Company is actively pursuing strategies to improve its working capital position and/or to reduce its future debt service costs, through the aforementioned means. The Company believes that these actions will mitigate the adverse conditions that the Company is facing; however, there is no certainty that these and other strategies will be successful or permit the Company to continue as a going concern.

These material uncertainties cast significant doubt on the Company's ability to continue as a going concern. If the Company is unable to restructure its debt in an acceptable manner, obtain additional adequate debt or equity financing or achieve adequate proceeds from the sale of assets, the Company will pursue all other legal avenues available to it with a view to improving the Company's financial situation in the best interests of the Company. These unaudited consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities and related expenses that might be necessary, should the Company be unable to continue as a going concern. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these statements would require adjustments to the amounts and classifications of assets and liabilities and these adjustments could be material.

2. BASIS OF PREPARATION

a) Preparation

These interim consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including IAS 34, Interim Financial Reporting, and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2014. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures included in the notes to the annual consolidated financial statements are condensed herein or are disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014.

These interim consolidated financial statements are prepared in US dollars. The functional currency of the Company and its wholly owned subsidiaries is the US dollar. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to comprehensive income.

(Expressed in US Dollars and Unaudited)

The accompanying unaudited condensed consolidated interim financial statements of Mountainview Energy, Ltd. have been prepared by and are the responsibility of the Company's management.

These financial statements were authorized for issue by the Board of Directors on November 23, 2015.

3. TRADE AND OTHER RECEIVABLES

A reconciliation of trade and other receivables is set out below:

	Note	September 30, 2015	December 31, 2014
Value-added tax receivables		$ 9,714	$ 10,044
Sale of crude petroleum		901,898	1,576,765
Joint interests		209,585	3,429,236
Related party joint interest receivable	12	43,650	97,077
Employee loan		2,245	4,395
Other receivables		27,468	154,260
Total trade and other receivables		**$ 1,194,560**	**$ 5,271,777**

The Company has recorded an accumulated allowance for doubtful accounts in the amount of $2.8 million as of September 30, 2015.

4. OTHER ASSETS

A reconciliation of other assets is set out below:

	September 30, 2015	December 31, 2014
Prepaid expense	$ 10,000	$ 70,000
Crude oil inventory	88,237	119,123
Derivative assets	-	879,932
Other inventory	2,426	-
Total other assets	**$ 100,663**	**$ 1,069,055**

(Expressed in US Dollars and Unaudited)

5. EXPLORATION AND EVALUATION ASSETS

A reconciliation of the carrying amount of exploration and evaluation assets is set out below:

Exploration and evaluation assets		
Balance December 31, 2013	$	27,613,975
Additions		557,250
Exploration and evaluation expiries		(6,659,387)
Transfers to oil and gas properties		(1,887,709)
Impairment expense		(16,887,427)
Balance December 31, 2014	$	2,736,702
Disposals		(76,805)
Additions		7,709
Impairment expense		(882,429)
Exploration and evaluation expiries		(1,785,177)
Balance at September 30, 2015	**$**	**-**

Exploration and evaluation (“E&E”) assets consist of the Company’s land and exploration projects which are pending the determination of technical feasibility and commercial viability. In the period ended September 30, 2015, the Company recognized an expense of $1.8 million ($5.4 million –September 30, 2014) for 3,570 net acres of current land expiries for which management has neither budgeted for nor planned further exploration. The Company also recognized an impairment expense of $0.9 million ($Nil – September 30, 2014) in relation to development costs incurred on the leasehold costs that expired during the period ended September 30, 2015.

(Expressed in US Dollars and Unaudited)

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Note	Oil and gas properties	Oil and gas development assets	Water disposal assets	Corporate assets	Total
Balance December 31, 2013		$ 60,367,244	$ 941,339	$ 730,784	$ 216,134	$ 62,255,501
Additions		24,405,709	212,931	18,188	119,746	24,756,574
Change in decommissioning provision		1,176,153	-	-	-	1,176,153
Transfers from E&E	5	1,887,709	-	-	-	1,887,709
Transfers to assets held for sale		2,999,509	-	-	-	2,999,509
Disposals		(1,854,339)	(168,717)	-	-	(2,023,056)
Balance December 31, 2014		88,981,985	985,553	748,972	335,880	91,052,390
Additions		1,349,844	-	-	-	1,349,844
Change in decommissioning provision		(158,078)	-	-	-	(158,078)
Disposals		(3,506,343)	(226,277)	(24,033)	(178,103)	(3,934,756)
Balance Septmeber 30, 2015		**86,667,408**	**759,276**	**724,939**	**157,777**	**88,309,400**
Accumulated depletion, depreciation and impairment losses:						
Balance December 31, 2013		(17,329,888)	(507,980)	(330,775)	(32,677)	(18,201,320)
Depletion and depreciation		(5,754,771)	(133,116)	(143,713)	(66,058)	(6,097,658)
Impairment expense		(22,927,000)	-	-	-	(22,927,000)
Disposals		1,172,307	66,129	-	-	1,238,436
Balance December 31, 2014		(44,839,352)	(574,967)	(474,488)	(98,735)	(45,987,542)
Depletion and depreciation		(2,547,611)	(68,534)	(108,741)	(27,305)	(2,752,191)
Impairment		(5,776,000)	-	-	-	(5,776,000)
Disposals		81,882	117,365	-	38,307	237,554
Balance September 30, 2015		**(53,081,081)**	**(526,136)**	**(583,229)**	**(87,733)**	**(54,278,180)**
Net carrying value						
Balance December 31, 2013		43,037,356	433,359	400,009	183,457	44,054,181
Balance December 31, 2014		44,142,633	410,586	274,484	237,145	45,064,848
Balance September 30, 2015		**33,586,327**	**233,140**	**141,710**	**70,044**	**34,031,220**

The Company has capitalized $228,496 and $284,724 of general and administrative expenses directly related to development and production activities for the period ended September 30, 2015 and the year ended December 31, 2014.

Future development costs on total proved reserves of $55 million at September 30, 2015 are included in the calculation of depletion ($107.5 million – December 31, 2014).

At September 30, 2015, due to declining forward commodity prices, the Company tested its cash generating units ("CGUS") for impairment. The recoverable amounts of the Company's CGUs were estimated as the fair value less costs to sell based on the estimated net present value of the after tax cash flow from oil and gas proved plus probable reserves discounted at a rate of 10%.

(Expressed in US Dollars and Unaudited)

It was determined that the net book value of the 12 Gage CGU exceeded its recoverable amount and the Company recognized an impairment charge of $5.8 million The impairment charge relates to a decrease in forecasted prices for oil and natural gas. The recoverable amounts of the Company's CGUs are sensitive to fluctuation in commodity prices. As a result, further decreases to commodity prices could result in additional impairment charges. Alternatively, an increase in commodity prices could reverse the recognized impairment charge, less applicable depletion expenses. At a future date, if there is an indicator that a previously recognized impairment charge may no longer exist, the recoverable amount of the CGU could be reversed to the extent that the asset's carrying value amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment had been recognized.

The benchmark prices used to determine the recoverable amounts are outlined in the following table. These estimates were used in determining whether impairment of the carrying value of the CGUs existed at September 30, 2015.

Year	WTI (USD)
2015 3 mo. Est	41.40
2016	49.50
2017	63.00
2018	67.50
2019	72.00
2020	73.08
2021	74.18
2022	75.29
2023	76.42
2024	77.56
2025	78.73
Thereafter	1.5% per year

A five dollar decrease in the forward prices would result in additional impairment of approximately $1 million whereas a five dollar increase in the forward prices would result in no impairment needing to be recognized.

7. TRADE PAYABLES AND OTHER LIABILITIES

A reconciliation of trade and other liabilities is set out below:

	September 30, 2015	December 31, 2014
Trade accounts payable	$ 1,373,212	$ 485,055
Accrued liabilities	1,941,968	3,252,898
Due to related parties	4,152,026	1,696,182
Accrued capital costs	10,864,324	12,482,538
Revenue payable	621,850	1,067,579
Interest payable	1,535,358	-
Production taxes payable	23,463	3,754
Total trade payables and other liabilities	**$ 20,512,202**	**$ 18,988,006**

(Expressed in US Dollars and Unaudited)

At September 30, 2015, due to the low commodity price environment and its impact on cash flow, a direct wholly owned subsidiary of the Company was unable to pay certain vendors in a timely manner. As a result, some vendors have filed liens on the subsidiary's producing wells, amounting to $8.1 million. At present, the subsidiary continues to receive all of its revenue from these wells, with the exception of a one-time lump sum of $27,000, which has been withheld by the purchaser of the subsidiary's produced oil. The sum is withheld under the terms of one lien, and will be held by the purchaser until the legal documentation has been received from the vendor to release the funds. Upon receipt of the legal documentation, and release of funds, this lien will be cleared. Management is in regular communication with all vendors and the vendors continue to work with the subsidiary, allowing management time to find a solution to the outstanding payable balance owed.

8. CONVERTIBLE DEBENTURE

On May 28, 2012, the Company acquired from a related company owned by a director and officer in common, a compressor, plant and equipment for consideration of $2,660,000. The Company paid $283,000 and agreed to issue a $2,377,000 debenture convertible into common shares of the Company at a price of $2.50 per common share (the actual convertible debenture issued was $2,072,053, which was reduced by costs incurred of $304,947 on behalf of the related company prior to the transaction closing). During the year ended December 31, 2013 the original convertible debenture was cancelled and a new convertible debenture was signed to extend the maturity date to June 1, 2015. In the year ended December 31, 2014 an amendment to the debenture was issued extending the maturity date to July 1, 2016 all other terms remained unchanged. At September 30, 2015 the convertible debenture was $2,072,053 plus accrued interest of $308,808. Principal and interest payments are due at maturity. At September 30, 2015, if the convertible debenture had been converted the Company would have issued 919,924 additional common shares.

9. DEBT AND CREDIT AGREEMENTS

Principal balances outstanding on the Company's debt and credit agreements consists of the following:

	September 30, 2015	December 31, 2014
Credit facility	$ 51,682,654	$ 50,539,132
Long term debt (including current portion)	155,491	391,042
Promissory notes	11,769,584	10,690,020
Term loan	8,488,266	8,660,000
Total debt and credit agreements	**$ 72,095,995**	**$ 70,280,194**

Credit Facility

The Company entered into a senior secured advancing credit facility (the "Facility") for up to a maximum of $75.0 million. At September 30, 2015 the Company had $49 million drawn with no additional funds available on the facility. The Facility matured on July 1, 2015 and remains unpaid, triggering a default event. Interest payable in the amount of $1,320,667 also remains unpaid at September 30, 2015.

Amounts borrowed bear interest at a floating rate with an 8% minimum. Monthly repayments of outstanding interest plus principal are required based on 85% of net profits from the 12-Gage Project. In connection with the Facility, the lender and the Company have an area of mutual interest ("AMI"), in northern Divide County, North Dakota. In addition, pursuant to the Facility, upon the earlier of the maturity date or the date the Facility is paid in full, the Lender will trigger the start of a 39% after pay-out net profits interest (the "NPI") in all of the Company's oil and gas properties within Divide County, North Dakota.

The NPI is defined as all revenues, less all operating costs, production taxes, and capital costs incurred by the Company. Payments on the NPI commence upon the earlier of the maturity date or the date the Facility is paid in full. Although the maturity date of the Credit Facility has passed, required payments on the NPI have not begun pending the change in terms negotiation with the bank. The NPI will be reduced from 39% to 20% once the lender achieves a 0.65 x return on investment. Return on investment is based on principal plus interest and fees. At June 30, 2015 the return on investment required to trigger this reduction in NPI is $36.2 million. The Facility is secured by a first priority mortgage and security interest in the 12 - Gage properties. The carrying amount of the collateral is $31.6 million. The borrowing base under the Facility will be subject to re-determination in the absolute discretion of the lender. The Company's US subsidiary, Mountain Divide LLC, is required to maintain a current ratio of 1.0: 1.0. At September 30, 2015 the US subsidiary's current ratio excluding the credit facility balance was 0.07:1.0, which results in a covenant breach.

For the period ended September 30, 2015, the Company incurred fees of $Nil ($61,591 – December 31, 2014) representing 1.25% of the borrowing base increase to the lender. A finder's fee was also incurred in conjunction with Facility. The finder's fee is payable at a rate of 4% based on each borrowing base increase up to the total amount available of $75.0 million, $1.31 million was accrued at September 30, 2015.

During the period ended September 30, 2015, the Company received proceeds of $Nil (December 31, 2014 - $13,218,423) under the Facility. The transaction has been recorded as a borrowing and a sale of conveyance relating to the 20% NPI. The Company has determined the fair value of the conveyance portion of the arrangement using a relative percentage of the conveyed property's fair value determined at its acquisition date and has recorded this amount of $2,661,810 (December 31, 2014 - $2,661,399) as an adjustment to the property. The residual amount of the initial proceeds has been determined to be a borrowing and has been recorded as a current liability based upon the expected terms of repayment. The discount to the face amount of the debt has been accreted over the initial term of the Facility. At September 30, 2015, the Company owed $49,389,680 in principal and $1,320,666 in interest under the Facility. During the period ended September 30, 2015, the Company has repaid $4,789 of the principal and has paid or accrued $2,955,300 in interest.

As noted above, at September 30, 2015 the Company is in default due to the following covenant breaches (1) principal balance remains unpaid past the maturity date of July 1, 2015 (2) the current ratio covenant (3) the covenant which requires prompt and timely payment of trade vendors and (4) the covenant requiring all oil and gas assets to be free of liens (Note 8). The bank has been notified of these breaches and is working with management towards a comprehensive solution. At this time the bank has not taken any formal action to exercise its rights and/or remedies under the credit agreement nor has it applied the Default Rate, however the bank has specifically reserved all of its rights and remedies under the facility agreement. The Company continues to communicate with the bank and is currently engaged in negotiations with the bank to reach a solution that would allow for repayment terms that would rectify the defaults, while still providing the Company with adequate cash flow to meet its ongoing obligations.

(Expressed in US Dollars and Unaudited)

The following table reconciles the face value of the credit facility to the carrying value:

	September 30, 2015	December 31, 2014
Balance, beginning of period	$ 50,539,132	$ 38,203,410
Proceeds received	-	13,218,423
Principal payments	(4,789)	(3,107,389)
Conveyance Fee	(416)	148,850
Accretion	1,148,727	2,350,825
Interest accrual(payment)	-	(274,987)
Balance, end of period	**$ 51,682,654**	**$ 50,539,132**

Long-term debt

The Company has various vehicle loans outstanding as of September 30, 2015 and December 31, 2014 with balances of $155,491, and $391,042 respectively. The current portion of vehicle loans as at September 30, 2015 and December 31, 2014 is $66,365 and $126,319. There are six vehicle loans with fixed rates that vary from 0% interest to 4.19% and will be repaid after five years.

Promissory notes

The Company entered into two unsecured promissory notes payable with major shareholders of the Company, each for $4,000,000 (total $8,000,000), bearing interest at 9% per annum and drawdown of the full principal balance. The principal was payable on or before May 30, 2015. During the year ended December 31, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At September 30, 2015, the balance due on the promissory notes was $7,850,000 plus accrued interest of $2,638,565. Principal and interest payments are due at maturity.

On March 12, 2013, the Company entered into two unsecured promissory notes payable with major shareholders of the Company and a Company with a director and officer in common, for $250,000, bearing interest at 5% per annum. The principal was payable on or before March 12, 2015. During the year ended December 31, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At September 30, 2015, the balance due on the promissory notes is $250,000 plus accrued interest of $33,172. Principal and interest payments are due at maturity.

On November 26, 2013, the Company signed three unsecured promissory notes payable with a major shareholder of the Company, for $460,949, $248,205, and $96,000, bearing interest at 9% per annum. The principal was payable on or before March 15, 2015, May 7, 2015 and June 6, 2015. During the year ended December 31, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At September 30, 2015, the balance due on the promissory notes is $805,154 plus accrued interest of $192,592. Principal and interest payments are due at maturity.

(Expressed in US Dollars and Unaudited)

Term Loan

On April 17, 2012, the Company entered into a revolving line of credit for $5,500,000 and on June 27, 2012, increased the line of credit to $8,700,000. During the year ended December 31, 2014, the line of credit was converted to a term loan extending the maturity date from October 17, 2014 to November 1, 2015. The outstanding balance at September 30, 2015 and December 31, 2014 was $8,488,266 and $8,660,000 respectively. The Company's US subsidiary provided a general security over its assets as collateral for the term loan and, a director and officer of the Company and major shareholder have provided personal guarantees. Carrying value of the collateral at September 30, 2015 was $2,892,706. The minimum interest rate is 5.25%. Repayment terms are monthly principal and interest payments of $110,900. At September 30, 2015 the Company was in default due to nonpayment. At this time the bank has not taken any formal action to exercise its rights and/or remedies under the credit agreement, nor has it applied the Default Rate, however the bank has specifically reserved all of its rights and remedies under the lending agreement. The Company continues to communicate with the bank and is currently engaged in negotiations with the bank to reach a solution that would allow for repayment terms that would rectify the defaults, while still providing the Company with adequate cash flow to meet its ongoing obligations.

The following is a schedule of debt payments excluding interest on bank debt over the next five years:

At September 30, 2015	Total	< 1 Year	1-3 years	4-5 years	After 5 years
Credit facility	$ 51,682,654	$ 51,682,654	$ -	$ -	$ -
Term loan	8,488,266	8,488,266	-	-	-
Promissory notes	11,769,584	11,769,584		-	-
Convertible Debenture	2,380,861	2,380,861		-	-
Vehicle loans	155,491	66,365	89,126	-	-
Total contractual obligations	$ 74,476,856	$ 74,387,730	$ 89,126	$ -	$ -

10. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $2.8 million (2014 – $2.8 million) which will be incurred over the operating lives of the assets, with the majority of costs to be incurred between 2016 and 2036. At September 30, 2015 an inflation factor of 2.42% (December 31, 2014 – 2.42%) has been applied to the estimated decommissioning cost. The Company's risk-free rate used to calculate the fair value of the decommissioning liabilities is 2.87% at September 30, 2015 (December 31, 2014 - 2.75%).

A reconciliation of the decommissioning liability is provided below:

	September 30, 2015	**December 31, 2014**
Balance, beginning of period	$ 2,512,516	$ 1,166,131
Obligations acquired	-	485,337
Change in discount rate	(98,135)	667,399
Transfer of held for sale assets	-	80,102
Disposals	(65,836)	(2,572)
Revisions of obligations	-	41,371
Accretion expenditure	50,844	74,748
Balance, end of period	**$ 2,399,389**	**$ 2,512,516**

(Expressed in US Dollars and Unaudited)

11. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value
Unlimited preference shares without par value

b) Issued

	September 30, 2015		December 31, 2014	
	Number of Shares	**Amount**	Number of Shares	Amount
Common shares, beginning of year	87,820,443	$24,878,505	87,820,443	$24,945,036
Share issuance costs	-	-	-	(66,531)
Common shares, end of year	**87,820,443**	**24,878,505**	**87,820,443**	**24,878,505**

c) Class B shares

During the year ended December 31, 2012, the Company's subsidiary issued 7,822,727 Class B Shares, to a company whose shareholder is a Company Director and officer. The Class B shares can be exchanged at the option of the holder, on a share for share basis with common stock of the Company or, at the option of the Company, be paid by cash at the current market value calculated as weighted average price per common stock of the Company for 20 consecutive trading days of the TSX-V. The exchange dates are as follows:

- June 4, 2012 to June 4, 2013 33%
- June 5, 2013 to June 5, 2014 66%
- June 6, 2014 to June 7, 2019 100%
- June 8, 2019 to June 9, 2022 100% (mandatory exchange or payable by cash)

The effect of Class B shares has not been included in the EPS for the periods ended September 30, 2015 and 2014. At September 30, 2015 none of the shares have been exchanged.

d) Share-based payments

The Company has a stock option plan (the "Plan") whereby employees and others in similar roles may be granted options to purchase one common share for each option granted. Under this plan, the Company is authorized to grant options to purchase common shares up to the equivalent of 10% of the number of common shares outstanding at the time of grant. Stock options granted under this plan vest immediately following the date of grant, and expire after a five year term. The exercise price of each option is equal to the market price of the Company's shares on the date of the grant. The following table summarizes the changes in stock options outstanding.

All stock-based compensation equity awards to employees and non-employee directors are currently granted under the 2012 Stock Plan (the "2012 Plan"). The fair value of option grants is determined utilizing the Black-Scholes option-pricing model for stock options. The aggregate number of options that are available to be issued under the plan is 10% of the outstanding common shares of the Company. At September 30, 2015 the Company had a remaining 3,112,044 shares that could be issued under the 2012 Plan.

(Expressed in US Dollars and Unaudited)

During 2012, the Company amended its Plan. Under the new Plan the exercise price cannot be less than the fair market value per share of the Company's common shares on the grant date, the options vest over a three year period and options generally expire five years from the date of grant.

Option grants are accounted for using the fair value method. The fair value of each option granted is estimated using the Black-Scholes option pricing model and the amount is recognized as the options vest. The Company issued nil options during the period ended September 30, 2015.

As of September 30, 2015, the Company has $25,238 (December 31, 2014 $185,315) in unrecognized stock-based compensation expenses related to unvested stock-based compensation awards. The compensation expense is expected to be recognized on a graded-vesting basis over the applicable remaining vesting periods. The full amount is expected to be recognized within three years.

For the period ended September 30, 2015 the Company recorded non-cash share-based compensation expense (recovery) of $(9,682) (December 31, 2014 - $390,610).

The following table summarizes information related to outstanding and exercisable options at September 30, 2015:

	Shares	Weighted Average Exercise Price per Share (C$)	Weighted Average Remaining Contractual Terms (Years)
Outstanding at December 31, 2013	6,370,000	$ 0.77	1.99
Expired	(50,000)	0.41	
Outstanding at December 31, 2014	6,320,000	0.77	3.25
Expired	(650,000)	-	
Outstanding at September 30, 2015	5,670,000	$ 0.78	1.42
Exercisable at September 30, 2015	5,422,361	$ 0.79	1.36

e) Contributed surplus

	September 30, 2015	December 31, 2014
Balance, beginning of year	$ 5,309,919	$ 4,919,309
Share-based compensation expense (recovery)	(9,682)	390,610
Balance, end of period	**$ 5,300,237**	**$ 5,309,919**

(Expressed in US Dollars and Unaudited)

f) Per share amounts

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net loss for the year	$ (29,122,458)	$ (9,447,892)
Weighted average shares - basic and diluted	87,820,443	87,820,443
Loss per share - basic and diluted	$ (0.33)	$ (0.11)

The impact of outstanding options is not included in the calculation of diluted common shares outstanding when a net loss is recorded, as the result would be anti-dilutive. Accordingly, nil common shares were added to the weighted average number of basic common shares outstanding due to the net loss reported in the current year.

12. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2015 the Company paid or accrued $3,132,173. (September 30, 2014 - $3,103,041) to seven companies owned by one of its major shareholders for services provided in the drilling and operating of the wells in the 12-Gage Project. These services have occurred in the normal course of business and are measured at their exchange amount. On January 23, 2015 five of the seven companies had filed liens on the Company's oil and gas assets in the total amount of $1,628,329. While these liens do not presently impact cash flow, the vendors who have filed the liens may, in fact, restrict cash flow from the wells under lien, further reducing the cash flow available to the Company

During the period ended September 30, 2015, the Company had a joint interest receivable of $4,442 (September 30, 2014 - $106,672) from two companies owned by two of its major shareholders. The companies are participants in certain joint venture activities.

During the period ended September 30, 2015, the Company had net a joint interest receivable of $39,208 and had paid or accrued $48,577 (September 30, 2014 - $19,984 and $50,648) from/to three companies owned by a Director and officer in common. The companies are participants in certain joint venture activities.

As of December 31, 2014 the Company executed a purchase and sale agreement for one of the company's non-operated oil and gas assets with a company owned by a major shareholder. Sales proceeds were $400,000 and a loss of $269,149 was recognized on the disposal.

(Expressed in US Dollars and Unaudited)

13. FAIR VALUE MEASUREMENTS

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

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.

- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

Classes of assets and liabilities are determined on the basis of the nature, characteristics and risks, and the level of the fair value hierarchy within which the fair value measurement is categorized. The number of classes may be greater for fair value measurements within Level 3 as those have a greater degree of uncertainty and subjectivity. A class will often require greater disaggregation than the line items presented in the statement of financial position, and information should be provided to reconcile to the statement of financial position. Determining appropriate classes requires judgment.

The following table outlines financial assets and liabilities by fair value hierarchy class.

	Level in fair value heirarchy	September 30, 2015 Carrying Amount	September 30, 2015 Estimated Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Estimated Fair Value
Assets					
Accounts receivable	1	$ 1,194,560	$ 1,194,560	$ 5,271,777	$ 5,271,777
Reclamation deposits	1	251,798	251,798	267,880	267,880
Total Assets		**$ 1,446,358**	**$ 1,446,358**	**$ 5,539,657**	**$ 5,539,657**
Liabilities					
Accounts payable and accrued liabilities	1	$ 20,512,202	$ 20,512,202	$ 18,988,006	$ 18,988,006
Term loan	1	8,488,266	8,488,266	8,660,000	8,660,000
Promissory notes payable	1	11,769,584	11,769,584	10,690,020	10,690,020
Convertible debenture	1	2,380,861	2,380,861	2,299,809	2,299,809
Credit facility	3	51,682,654	51,682,654	50,539,132	50,539,132
Decomissioning liabilities	3	2,399,389	2,399,389	2,512,516	2,512,516
Total Liabilities		**$ 97,232,956**	**$ 97,232,956**	**$ 93,689,483**	**$ 93,689,483**

The Company recognizes financial instruments at fair value on initial recognition. The Company's financial instruments, are presented on the balance sheet at carrying value which approximates fair value due to the short terms to maturity and the floating interest rate on the debt agreements.

The carrying values of the Company's financial liabilities may be higher than their fair value due to the Company's liquidity position (Note 1). The Company's policy is to recognize transfers into and out of fair value hierarchy levels at the end of the reporting period. During the period ended September 30, 2015 there were no transfers between levels 1, 2 or 3.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include trade and other receivables (excluding value-added tax receivable), short-term investments, cash and cash equivalents, trade and other payables (excluding production taxes payable), convertible debenture, term loan, credit facility, promissory note and long-term debt. Trade and other receivables (excluding value-added tax receivable), short-term investments and cash and cash equivalents are classified as loans and receivables and are measured at amortized cost. Trade and other payables (excluding production taxes payable), convertible debenture, term loan, credit facility, promissory note and long-term debt are classified as other financial liabilities and are similarly measured at amortized cost. At September 30, 2015, the fair values of these financial assets approximate their carrying value. The carrying values of the Company's financial liabilities may be higher than their fair value due to the Company's liquidity position (Note 1).

The Company is exposed to market risk (most significantly from changes in commodity prices, foreign exchange rates and interest rates), credit risk and liquidity risk which may impact the Company's future cash flows and value of its financial instruments. The Company manages risk through its policies and processes and may use derivative instruments to manage these risks.

a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. A $10.00 per bbl change in the price received for the Company's oil and natural gas liquids production is estimated to result in a $1 million change in the Company's net loss for the period ended September 30, 2015 (December 31, 2014 - $0.6 million). The current commodity price environment has materially impacted the cash flow of the Company. The potential for future oil prices to remain at their current price levels for an extended period of time raises substantial doubt regarding the Company's ability to continue as a going concern. Should the prevailing oil prices as of September 30, 2015 remain in effect for an extended period of time, it is likely that the Company would need to pursue some form of asset sale, debt restructuring, or capital raising effort in order to fund its operations and to service its existing debt during the next twelve months. Changes in natural gas prices do not currently have a significant impact to the Company's operations.

b) Interest rate risk

The Company is charged a fixed interest rate on its convertible debenture, long-term debt and promissory notes. The interest rates on the term loan and credit facility are variable and based on the bank's prime rates. A 1% change in the prime rates is estimated to result in a $578,779 million change in the Company's net loss for the period ended September 30, 2015. The Company had no interest rate swap or financial contracts in place as at September 30, 2015 and 2014. The current default position on both the term loan and the credit facility put the Company at additional risk of being assessed default interest rates under the respective credit agreements. The default rate on the term loan is the minimum rate plus five percent (5%). At this time, the default rate on the term loan would be ten and one quarter percent (10.25%). The default rate on the credit facility is the minimum rate plus four percent (4%). At this time, the default rate on the credit facility would be twelve percent (12%).

c) Foreign exchange risk

The majority of the Company's operations are conducted in U.S. dollars. The Company is exposed to foreign currency fluctuations to the extent cash, and accounts payable and accrued liabilities of the Company are not denominated in US dollars.

The following identifies the amounts in Canadian dollars that the Company is exposed to foreign currency fluctuations:

	September 30, 2015	December 31, 2014
Cash at bank (C$)	$ 11,540	$ 2,066
Value-added tax receivables (C$)	12,693	11,652
Trade accounts payable (C$)	43,145	86,631
Long-term debt (C$)	-	54,694
	$ 67,378	**$ 155,043**

Based on the net exposures in the preceding table and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the US dollar would result in an increase/decrease of $6,738 (December 31, 2014 – $15,504) in the Company's net loss.

d) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from its oil and natural gas marketers, other receivables, cash and cash equivalents and short-term investments. Receivables from marketers, which represent the Company's largest receivables, are normally collected on the 28th day of the month following production. To mitigate the risk of non-payment, the Company assesses the financial strength of its marketers and enters into relationships with large purchasers with established credit history. The Company's cash and cash equivalents and short-term investments are held in banks with high credit ratings.

The Company has not experienced any collection issues with its marketers in 2015. Sunoco Partners Marketing and Terminals LP was responsible for 72% of the Company's revenue, or $3.3 million, for the period ended September 30, 2015. CHS, Inc. was responsible for 19% of the Company's revenue, or $0.8 million, for the period ended September 30, 2015. These two marketers were the only customers accounting for greater than 10% of total revenue for the period ended September 30, 2015. As at September 30, 2015, the Company recorded $2.8 million, (December 31, 2014 – $0.04 million) in allowance for doubtful accounts.

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all of its financial obligations when they become due. The Company manages its liquidity risk through the active management of cash flows, debt and maintaining appropriate access to credit. The current commodity price environment has materially impacted the cash flow of the Company. The potential for future oil prices to remain at their current price levels for an extended period of time raises substantial doubt regarding the Company's ability to continue as a going concern. Should the prevailing oil prices as of September 30, 2015 remain in effect for an extended period of time, it is likely that the Company would need to pursue some form of asset sale, debt restructuring, or capital raising effort in order to fund its operations and to service its existing debt during the next twelve months.

(Expressed in US Dollars and Unaudited)

The timing of cash outflows relating to financial liabilities as at September 30, 2015 are as follows:

At September 30, 2015	< 1 Year	1-3 years	3-5 years	After 5 years	Total
Trade and accrued liabilities	$ 20,512,202	$ -	$ -	$ -	$ 20,512,202
Term loan - principal	8,488,266	-	-	-	8,488,266
Term loan - interest	214,691				214,691
Long-term debt	66,365	89,126	-	-	155,491
Credit facility - principal	49,389,681	-	-	-	49,389,681
Credit facility - interest	1,320,667	-	-	-	1,320,667
Convertible debenture - principal	2,072,053	-	-	-	2,072,053
Convertible debenture - interest	308,808	-	-	-	308,808
Promissory notes - principal	8,905,154	-	-	-	8,905,154
Promissory notes - interest	2,864,430	-	-	-	2,864,430
Total	$ 94,142,317	$ 89,126	$ -	$ -	$ 94,231,444

To the extent that the Company enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. Derivative instruments are not entered into for speculative purposes and management closely monitors commodity risk exposure in comparison to forecasted sales volumes. Liquidity risk is partially mitigated as losses realized due to high commodity prices are generally matched by increased cash flows from sales in the high commodity price environment.

The Company's term loan matured November 1, 2015. The Company's credit facility is drawn on a credit facility of $75 million and matured July 1, 2015. The principal on both debt instruments remains unpaid as the Company is in the process of negotiating a change in terms agreement with the issuing banks. See Note 1 and Note 9 for further discussion regarding the credit facility and term loan.

The Company has a convertible debenture (Note 8) with a face value of $2,072,053, convertible into Company shares at the holder's option.

15. SUPPLEMENTAL INFORMATION

Change in working capital is summarized as follows:

	September 30, 2015	September 30, 2014
Change in working capital relating to operating:		
Accounts receivable	$ 1,010,317	$ (6,823,007)
Assets held for sale	-	(505,135)
Prepaid expenses	(10,000)	-
Other assets	28,461	(89,367)
Reclamation deposit		(1,833)
Account payable and accrued liabilities	29,065	(640,371)
Liabilities held for sale	-	375,272
Changes in non-cash working capital	**$ 1,057,843**	**$ (7,684,441)**

(Expressed in US Dollars and Unaudited)

Non cash investing activities are summarized as follows:

		September 30, 2015		September 30, 2014
Change in non-cash investing activities:				
Decomissioning provision	$	(163,970)	$	(796,621)
Asset disposals		3,473,007		45,082
Accrued capital costs		(670,227)		12,619,656
Credit facility		(416)		159,788
Decomissioning obligation		-		812,003
Exploration and evaluation disposals		69,096		-
Balance, end of period	**$**	**2,707,490**	**$**	**12,839,908**

Cash paid for interest and other finance expenses are summarized as follows:

		September 30, 2015		September 30, 2014
Interest:				
Cash interest paid	$	1,783,280	$	2,059,685
Cash paid (received) on hedging loss		(761,064)		79,979
	$	**1,022,216**	**$**	**2,139,664**

16. CAPITAL MANAGEMENT

As noted in Note 1 and throughout these financial statements, the Company has a sizeable working capital and accumulated deficit which raise substantial doubt regarding the Company's ability to continue as a going concern. Should the company overcome its working capital deficit and refocus its efforts on oil and gas development projects its objectives in capital management would be to maintain a conservative, yet flexible structure which will allow it to execute on its capital investment program.

The Company actively monitors its capital structure through cash flow from operating activities (before changes in non-cash working capital), which drive current and forecasted net debt levels. In forecasting these amounts, the Company includes economic conditions; investment opportunities; past and forecasted capital investment efficiencies; and current and forecasted petroleum and natural gas prices.

In order to manage the capital structure, the Company will focus on its forecasted debt to forecasted cash flow from operating activities (before changes in non-cash working capital) ratio; the level of bank credit that may be obtainable as a result of crude oil and natural gas reserve growth; the availability of other sources of debt; issuing new common equity if available on favorable terms; the sale of assets; and limiting the size of the investment program.

The Company's share capital is not subject to external restrictions. The Company was not in compliance with all of its financial covenants regarding the credit facility or term loan at the end of the reporting period (Note 9). While the lenders have not exercised their rights or remedies under the terms of the credit agreement, they may choose to do so at their discretion. Management continues to work with its lenders to provide a solution. To date, the lenders has been cooperative and continue to work with management to find a mutually agreeable solution.

(Expressed in US Dollars and Unaudited)

17. SEGMENT INFORMATION

Economic dependence and major customers

During the nine month period ended September 30, 2015, two customers, C.H.S. Inc., and Sunoco Inc., accounted for approximately, 19% and 72%, respectively, of the Company's consolidated revenue (September 30, 2014 – 11% and 82%, respectively). At September 30, 2015, the same two customers accounted for 69% (September 30, 2014 – 82%) of the accounts receivable. The Company enters into short term contracts with its primary customers, which are subject to periodic renewals at the discretion of both parties at market rates. Should the customer relationship with C.H.S. Inc. or Sunoco Inc. discontinue in the future, the loss of revenue might result in a material adverse effect on the Company and its going concern. For further details on the Company's assessment of its going concern basis of preparation refer to Note 1.

18. HEDGING AGREEMENT

On December 19, 2013, the Company engaged in an eighteen month Hedging Agreement. The agreement has a collar with a floor at $85.00 and a ceiling at $97.70. For the nine months ended September 30, 2015, the Company realized a hedging gain (loss) of $761,064 (September 30, 2014 – ($234,669)). During the nine months ended September 30, 2015, there was an unrealized mark to market gain (loss) of ($879,932) (September 30, 2014 – $178,473) on this contract. The contract expired July 1, 2015.

19. Income Taxes

The Company has non-capital loss carry-forwards of approximately $30 million that may be available for tax purposes. The loss carry-forwards for the Company's Canadian and U.S. operations and the respective expiry dates are outlined below. The company has recorded a full valuation allowance for the deferred tax benefit generated from the loss carryforwards.

	Canada	United States	Total
2028	$ 3,748	$ -	$ 3,748
2030	6,248	-	6,248
2031	5,884	-	5,884
2032	465,992	1,134,984	1,600,976
2033	383,970	5,215,101	5,599,071
2034	987,965	21,709,040	22,697,005
	$ 1,853,807	**$ 28,059,125**	**$ 29,912,932**