# Consolidated Financial Statements

December 31, 2014

3MV ENERGY

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The majority of the Audit Committee is composed of Directors who are neither management nor employees of the Corporation. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending approval of the financial information to the Board of Directors. The Audit Committee fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee is also responsible for recommending the appointment of the Corporation's external auditors.

KPMG LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them. The external auditors have full and free access to the Audit Committee and management to discuss their audit findings.

April 28, 2015

*(Signed) "Dallas Duce"*
President and Chief Executive Officer

*(Signed) "William (Billy) Abbey"*
Vice President, Finance and Chief Financial Officer

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of 3MV Energy Corp.

We have audited the accompanying consolidated financial statements of 3MV Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of 3MV Energy Corp. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that 3MV Energy Corp. incurred a net loss of $12.6 million and used cash in operations of $0.5 million during the year ended December 31, 2014, and at December 31, 2014 has a shareholder deficiency of $0.9 million and a working capital deficiency of $1.5 million. In addition, 3MV Energy Corp. was in violation of its loan covenants as at December 31, 2014 and forecasts likely violations of covenants in 2015. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainty that may cast significant doubt about 3MV Energy Corp.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants

April 27, 2015
Calgary, Canada

## Consolidated Statements of Financial Position

| Canadian Dollars | Note | December 31, 2014 $ | December 31, 2013 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | **1,620,608** | 80,381 |
| Accounts receivable | 6 | **637,013** | 175,718 |
| Prepaid expenses and deposits | | **403,954** | 87,813 |
| | | **2,661,575** | 343,912 |
| **Non-current assets** | | | |
| Property and equipment | 7 | **6,773,139** | 16,900,395 |
| Exploration and evaluation assets | 8 | **2,648,804** | 2,696,671 |
| | | **9,421,943** | 19,597,066 |
| **Total Assets** | | **12,083,518** | 19,940,978 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accruals | | **2,165,113** | 4,020,459 |
| Operating loan | 10 | **-** | 500,000 |
| Convertible debenture | 11 | **1,984,500** | - |
| | | **4,149,613** | 4,520,459 |
| **Non-current liabilities** | | | |
| Long term liability | | **-** | 220,175 |
| Convertible debenture | 11 | **-** | 2,886,079 |
| Related Party Loan | 24 | **1,862,408** | - |
| Operating Loan | 10 | **5,488,611** | - |
| Decommissioning liabilities | 12 | **1,285,248** | 1,949,608 |
| | | **8,636,267** | 5,055,862 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | |
| Share capital | 15 | **29,969,625** | 28,916,413 |
| Equity component of convertible debentures | 11 | **72,961** | 109,069 |
| Contributed surplus | | **2,810,732** | 2,096,651 |
| Warrants | 10/15 | **337,013** | 532,846 |
| Deficit | | **(33,892,693)** | (21,290,322) |
| | | **(702,362)** | 10,364,657 |
| **Total Liabilities and Shareholders' Equity and deficiency** | | **12,083,518** | 19,940,978 |
| Going Concern | 2 | | |
| Commitments | 21 | | |
| Subsequent events | 25 | | |

Approved on behalf of the Board of Directors

*(Signed) "James P. Boyle"* *(Signed) "Donald Fairholm"*

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

# Consolidated Statements of Comprehensive Loss

| Canadian dollars | Note | Year ended December 31, 2014 $ | Year ended December 31, 2013 $ |
|---|---|---|---|
| Oil and natural gas revenues | | **2,763,277** | 2,879,818 |
| Royalties | | **(129,538)** | (158,314) |
| **Total revenue** | | **2,633,739** | 2,721,504 |
| Production and operating | | **1,193,829** | 1,203,602 |
| General and administrative | 17 | **893,230** | 1,126,006 |
| Share based compensation | 16 | **12,516** | 985,564 |
| Depletion and depreciation | 7 | **1,377,356** | 1,246,619 |
| Impairment loss (reversal) | 9 | **9,403,149** | (918,477) |
| Exploration and evaluation | 8 | **22,965** | 229,651 |
| Loss on disposal of properties | | **82,346** | 10,726 |
| Loss on Joint Venture arrangement | 7 | **1,968,636** | - |
| Extinguishment of debt | 13 | **(402,809)** | - |
| | | **14,551,218** | 3,883,691 |
| **Loss from operations** | | **(11,917,479)** | (1,162,187) |
| Finance costs | 18 | **849,895** | 533,170 |
| **Loss before income tax** | | **(12,767,374)** | (1,695,357) |
| Current income tax (expense) | | **-** | 27,042 |
| Deferred income tax (expense) | 14 | **165,003** | 28,959 |
| **Total income tax (expense)** | | **165,003** | 56,001 |
| **Total comprehensive loss** | | **(12,602,371)** | (1,639,356) |
| **Loss per share** | | | |
| Basic and diluted | 23 | **(0.24)** | (0.03) |

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

# Consolidated Statements of Changes in Shareholders' Equity

| Canadian dollars | Note | Number of shares outstanding # | Share capital $ | Warrants $ | Equity component of convertible debenture $ | Contributed Surplus $ | Deficit $ | Total Shareholders' equity $ |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2012** | | **45,439,169** | **27,540,619** | **475,094** | **36,108** | **1,111,087** | **(19,650,966)** | **9,511,942** |
| Shares issued for debt outstanding | 15 | 5,575,233 | 1,333,500 | 55,752 | - | - | - | 1,389,252 |
| Non-brokered private placements | 15 | 203,000 | 42,294 | 2,000 | - | - | - | 44,294 |
| Equity component of convertible debenture issued February 21, 2013 | 11 | - | - | - | 72,961 | - | - | 72,961 |
| Share based payment | 16 | - | - | - | - | 985,564 | - | 985,564 |
| Total comprehensive loss for the year | | - | - | - | - | - | (1,639,356) | (1,639,356) |
| **As at December 31, 2013** | | **51,217,402** | **28,916,413** | **532,846** | **109,069** | **2,096,651** | **(21,290,322)** | **10,364,657** |
| Share based payments | 16 | | | | | 12,516 | | 12,516 |
| Equity component of related party loan | 24 | | | | | 132,611 | | 132,611 |
| Expiry of warrants | 15 | | | (532,846) | | 532,846 | | - |
| Shares issued for interest on related party loan | 15 | 318,817 | 53,212 | | | | | 53,212 |
| Shares issued upon conversion of convertible debentures | 15 | 3,448,276 | 1,000,000 | | (36,108) | 36,108 | | 1,000,000 |
| Warrants issued with operating loan draw | 15 | | | 337,013 | | | | 337,013 |
| Total comprehensive loss for the period | | | | | | | (12,602,371) | (12,602,371) |
| **As at December 31, 2014** | | **54,984,495** | **29,969,625** | **337,013** | **72,961** | **2,810,732** | **(33,892,693)** | **(702,362)** |

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

## Consolidated Statements of Cash Flows

| Canadian dollars | Note | Year ended December 31, 2014 $ | Year ended December 31, 2013 $ |
|---|---|---|---|
| **Cash provided by (used for) the following activities** | | | |
| **Operating activities** | | | |
| Loss for the year | | **(12,602,371)** | (1,639,356) |
| Add (deduct): | | | |
| Depletion and depreciation | 7 | **1,377,356** | 1,246,619 |
| Accretion on decommissioning liabilities | 12 | **37,794** | 50,145 |
| Accretion on convertible debenture | 11 | **98,421** | 64,805 |
| Accretion on related party loan | 24 | **54,240** | - |
| Accretion on transaction costs | 10 | **17,206** | - |
| Loss on disposal of properties | | **82,346** | 10,726 |
| Extinguishment of debt | 13 | **(402,809)** | - |
| Share based compensation | 16 | **12,516** | 985,564 |
| Exploration and evaluation | 8 | **22,965** | 229,651 |
| Impairment loss (reversal) | 9 | **9,403,149** | (918,477) |
| Deferred tax recovery | 14 | **(165,003)** | (28,959) |
| Loss on joint venture arrangement | 7 | **1,968,636** | - |
| Change in non-cash working capital | 22 | **(453,335)** | 560,401 |
| **Cash from operating activities** | | **(548,889)** | 561,119 |
| **Investing activities** | | | |
| Purchase of property and equipment | 7 | **(5,881,360)** | (578,858) |
| Purchase of exploration and evaluation assets | 8 | **(1,664,523)** | (2,055,928) |
| Proceeds from disposition of properties | | **4,164,401** | 11,222 |
| Change in non-cash working capital | 22 | **(1,943,602)** | (664,737) |
| **Cash used in investing activities** | | **(5,325,084)** | (3,288,301) |
| **Financing activities** | | | |
| Repayment of operating loans | 10 | **(500,000)** | - |
| Proceeds from new operating loan facility, net of issue costs | 10 | **5,926,828** | - |
| Issuance of common shares | 15 | **-** | 44,294 |
| Proceeds from related party loan | 24 | **1,987,372** | - |
| Proceeds from issuance of convertible debentures, net of issue costs | 11 | **-** | 1,981,392 |
| **Cash from financing activities** | | **7,414,200** | 2,025,686 |
| Increase (decrease) in cash and cash equivalents | | **1,540,227** | (701,496) |
| Cash and cash equivalents, beginning of year | | **80,381** | 781,877 |
| **Cash and cash equivalents, end of year** | | **1,620,608** | 80,381 |

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

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 1. Reporting entity

3MV Energy is a crude oil and natural gas exploration and production Corporation based in Calgary, Alberta, Canada. The Corporation's operations are focused in Western Canada, primarily in southwest Saskatchewan. The Corporation is listed on the TSX-V under the symbol "TMV".

The address of its registered office is suite 1150, 444 5th Avenue S.W., Calgary, Alberta.

## 2. Basis of preparation

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 27, 2015.

### Going concern

For the year ended December 31, 2014, the Corporation reported a net loss of $12.6 million; cash used in operations of $549 thousand, shareholder deficiency of $702 thousand and has a working capital deficiency of $1.5 million. In addition, the Corporation was in violation of certain specific loan covenants as at December 31, 2014 and forecasts to be in violations of the same covenants as at March 31, 2015 and likely for the remainder in 2015. The Corporation obtained a waiver from its lender for these violations for the December 31, 2014 and March 31, 2015 periods. The Corporation continues its efforts to raise equity and diminish accounts payable through operational cash flow and farm out arrangements. While these actions should be able to improve the current financial position, the Corporation recognizes that its operations are now focused principally in the Fiske area and the results of exploratory drilling are still to be determined. In addition, the Corporation is subject to oil price volatility risk as was experienced at the end of Q4 2014 with rapid decline of global oil prices. These conditions create a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Additional equity, debt arrangements and/or operating developments are needed to meet the Corporation's business objectives. There are no guarantees that such additional capital funding will be available when needed.

The ability of the Corporation to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue as a going concern.

## 2. Basis of preparation (continued)

### Going concern (continued)

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business and does not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid. Management believes that the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of assets and liabilities, and expenses and the statement of financial position classifications used may be necessary.

### Basis of measurement

These consolidated financial statements are prepared on the historical cost basis.

### Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates and judgments are significant to the financial statements are disclosed in further in note 4.

### Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency.

## 3. Summary of significant accounting policies and disclosures

### Accounting policies and disclosures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### Basis of consolidation

Subsidiaries are entities controlled by the Corporation. Control is achieved where the entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others and involve jointly owned assets accordingly; these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 3. Summary of significant accounting policies and disclosures (continued)

### Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less.

### Revenue recognition

Revenues associated with the sale of crude oil and natural gas are recognized based on volumes delivered at contractual delivery points when title passes to the customer. Oil sales are recognized when the oil is delivered to customer. Gas sales are recognized when the gas is delivered to customer gas lines. Sales revenue is recorded at the gross amount before transportation and marketing charges. Revenues from crude oil and natural gas production from properties from which the Corporation has an interest with other producers is recognized on the basis of the Corporation's net working interest.

### Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of petroleum products is calculated as the average production costs per barrel, multiplied by the number of barrels in inventory. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

### Non-derivative financial Instruments

Non-derivative financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, the Corporation's financial instruments have been classified in one of the following categories depending on the purpose for which the instruments were acquired:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss ("FVTPL") are financial assets held for trading or that are designated as such by management. Such assets are held for trading if it is acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statement of comprehensive income. Transaction costs are expensed. Assets in this category include cash and cash equivalents.

## 3. Summary of significant accounting policies and disclosures (continued)

### Non-derivative financial Instruments (continued)

***Loans and receivables***

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include accounts receivable.

***Other financial liabilities***

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include bank indebtedness, accounts payable and accruals, related party and credit facility loans.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recorded at the proceeds received, less of direct issue costs, net of any tax effects.

### Exploration and evaluation expenditures

General exploration and evaluation ("E&E") expenditures incurred prior to acquiring the legal right to explore are charged to the consolidated statement of comprehensive loss as incurred.

E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. E&E assets are not depleted and are moved into property and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

E&E assets are assessed for impairment at the cash-generating unit level when there are indicators of impairment. The Corporation considers the following to be indicators of impairment:

a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and,
d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 3. Summary of significant accounting policies and disclosures (continued)

### Property and equipment

Property and equipment include petroleum and natural gas assets, computer equipment and leasehold improvements.

***Petroleum and natural gas assets***

Expenditures on developed petroleum and natural gas assets such as drilling of development wells, tangible costs of facilities and infrastructure construction are capitalized to oil and gas assets when it is probable that a future economic benefit will flow to the Corporation as a result of the expenditure and the cost can be reliably measured. Such costs include property acquisitions, drilling and completion costs, gathering and processing infrastructure, capitalized decommissioning obligations, directly attributable internal costs and major overhaul and turnaround activities that maintain property, plant and equipment. Repairs and maintenance and operation costs that do not extend or enhance the recoverable reserves are charged to profit and loss when incurred.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liabilities associated with the asset and finance charges on qualifying assets.

The Corporation has entered into a joint arrangement whereby the joint arrangement partner will earn a working interest on certain properties through the expenditure of a pre-determined amount of drilling, completing and equipping costs. A loss on the disposition for the property is recognized to account for the disposal of the working interest earned by the partner on the assets, which results from the difference between the percentage of all capital costs contributed for the drilling, completion, equipping and tie-in of the well by the partner, and the carrying costs of the asset of the Corporation.. The Corporation has both exploration and evaluation assets and property, plant and equipment assets that are subject to these arrangements.

***Depletion***

Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Petroleum and natural gas assets are depleted using the unit-of- production method over their reserve life based on proved plus probable reserve volumes at each area level. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis. Natural gas reserves are converted to barrels of oil equivalent based on relative energy content (6:1).

***Disposals***

Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on de-recognition of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the consolidated statement of comprehensive loss in the period of de-recognition.

***Computer equipment and leasehold improvements***

Computer equipment and leasehold improvements are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value on a straight-line basis over the estimated useful economic lives of 3 years.

## 3. Summary of significant accounting policies and disclosures (continued)

***Office furniture and fixtures***

Office furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value on a straight-line basis over the estimated useful lives of 5 years.

***Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the financial assets are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive loss. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivables.

***Non-financial assets***

At the end of each reporting period, the Corporation reviews the carrying amounts of its long lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. CGUs are the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs ("FVLCTS") to sell and value in use ("VIU"). In assessing fair value less costs to sell, the Corporation estimates the amount obtainable from the sale of the asset in an arm's length transaction less costs of disposal. Value in use is determined by estimating the present value of the future net cash flows from the continued use of the CGU and is subject to the risks associated with estimating the value of reserves. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 3. Summary of significant accounting policies and disclosures (continued)

### Joint Arrangements

Many of the Company's oil and natural gas activities involve jointly owned assets. The consolidated financial statements include the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs. The relationship with jointly owned asset partners has been referred to as joint venture in the remainder of the financial statements as is common in the Canadian oil and gas industry. The Corporation does not have any joint arrangements that are structured through a separate vehicle.

### Share-based compensation

The Corporation operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and contractors as consideration for equity instruments of the Corporation.

The Corporation uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is separately determined and recognized over its respective vesting period.

When recognizing the fair value of each tranche over its respective vesting period, the Corporation incorporates an estimate of the number of options expected to vest and revises that estimate when subsequent information indicates that the number of options expected to vest differs from previous estimates. The ultimate expense recognized is adjusted to reflect the actual number of awards that vest.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

### Decommissioning liabilities

The Corporation provides for the costs of decommissioning associated with long-lived assets, including the abandonment of crude oil and natural gas wells, removal of equipment from leased acreage and returning such land in a condition as it is contractually obligated. The best estimate of each asset retirement liability is recorded in the period a well or related asset is drilled and evaluated, constructed or acquired. The decommissioning liabilities is measured in the consolidated statement of financial position at the fair value of the expenditures expected to be required to settle the obligation using a risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A corresponding amount is capitalized as part of tangible non-financial assets.

Any further adjustment arising from a reassessment of estimated cost of the asset retirement liabilities also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the retirement liabilities is treated as a component of finance costs in the consolidated statement of comprehensive loss.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 3. Summary of significant accounting policies and disclosures (continued)

### Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

***Current Income taxes***

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

***Deferred taxes***

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

***Deferred tax liabilities:***

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and,
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

***Deferred tax assets:***

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

## 3. Summary of significant accounting policies and disclosures (continued)

### Finance costs

Finance costs comprise interest expense on borrowings, accretion of provisions and any impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of comprehensive loss using the effective interest method. Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the asset, or where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

### Earnings per share ("EPS")

Basic EPS is calculated by dividing profit or loss attributable to owners of the Corporation (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options, warrants and other potential dilutive shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS. All options and warrants are considered anti-dilutive when the Corporation is in a loss position.

### New of amended IFRSs effective January 1, 2014

As of January 1, 2013 the Corporation adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Corporation's financial statements follows below:

IAS 32 Financial Instruments: Presentation, has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent upon a future event. The adoption of this amendment did not impact the Corporation's financial statements.

Effective January 1, 2014, the International Financial Reporting Interpretation Committee ("IFRIC") 21 clarified that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached.

The adoption of these standards did not have any impact on the Corporation's financial statements.

## 3. Summary of significant accounting policies and disclosures (continued)

### Accounting standards issued but not yet effective

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, 2017, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 15 on the Corporation'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 Corporation's financial statements.

## 4. Critical judgments and accounting estimates

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

### Critical Judgments:

***Identification of cash generating units***

Cash generating units are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

***Impairment / Reversal of impairment of non-financial assets***

Judgements are required to assess when impairment indicators exist and impairment testing required in determining the recoverable amount of assets, in the absence of quotes market prices, impairment tests are based on an estimate of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

## 4. Critical judgments and accounting estimates (continued)

Critical Estimates:

***Decommissioning liabilities***

Decommissioning liabilities consist of asset retirement obligations that are based, in part, on estimates of future costs to settle the obligation, in addition to estimates of the useful life of the underlying assets, the rate of inflation and the risk-free interest rate.

***Assessment of commercial reserves***

Management is required to assess the level of the Corporation's commercial reserves together with the future expenditures to access those reserves, which are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required against producing and developed, and the determination of the deferred tax liability. By their nature, these estimates of discovered and probable crude oil and natural gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risked discount rate relevant to the asset in question are subject to measurement uncertainty. The Corporation employs an independent reserves specialist who periodically assesses the Corporation's level of commercial reserves in compliance with NI51-101 by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Corporation's assets. Significant judgment is involved when determining whether there have been any significant changes in the Corporation's crude oil and natural gas reserves.

***Recoverable amounts of CGUs.***

The recoverable amount of a CGU used in the assessment of impairment is the greater of its VIU and its FVLCTS.

VIU is determined by estimating the present value of the future net cash flows from the continued use of the CGU, and is subject to the risks associated with estimating the value of reserves. FVLCTS refers to the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

***Deferred taxes***

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 5. Cash and cash equivalents

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Cash at banks and on hand | 1,541,646 | 58,101 |
| Short-term investments | 78,962 | 22,280 |
| | 1,620,608 | 80,381 |

Short-term investments earn interest at a rate of 60bps on deposits under $5 million and 105bps on amount over $5 million.

## 6. Accounts receivable

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Oil and natural gas customers | 474,985 | 164,086 |
| Joint arrangement and other receivables | 162,028 | 11,632 |
| | 637,013 | 175,718 |

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. Joint arrangement receivables are typically collected within one to three-months of the joint arrangement bill being issued to the partner. As at December 31, 2014 and December 31, 2013 no accounts receivable were impaired and an allowance for doubtful accounts has not been established.

The aging analysis of accounts receivable is as follows:

| | Total<br>$ | Neither past due nor impaired<br>$ | 31-60 days<br>$ | 61-90 days<br>$ | > 90 days<br>$ |
|---|---|---|---|---|---|
| December 31, 2014 | 637,013 | 180,022 | 259,922 | 132,787 | 64,282 |
| December 31, 2013 | 175,718 | 163,377 | 84 | - | 12,257 |

In determining the recoverability of an accounts receivable, the Corporation performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 7. Property and equipment

| | Petroleum and natural gas assets $ | Corporate assets $ | Total $ |
|---|---|---|---|
| **Cost:** | | | |
| Balance at December 31, 2012 | 33,523,899 | 247,622 | 33,771,521 |
| Additions | 578,858 | - | 578,858 |
| Dispositions | - | (36,178) | (36,178) |
| Change in decommissioning provisions | (85,025) | - | (85,025) |
| Balance at December 31, 2013 | 34,017,732 | 211,444 | 34,229,176 |
| Additions | 8,445,224 | - | 8,445,224 |
| Dispositions | (25,445,021) | - | (25,445,021) |
| Decommissioning liabilities disposed | (1,393,014) | - | (1,393,014) |
| Change in estimate of decommissioning liabilities | 401,388 | - | 401,388 |
| Decommissioning liabilities incurred | 289,093 | - | 289,093 |
| Transfers from E&E to PPE | 81,741 | - | 81,741 |
| **Balance at December 31, 2014** | 16,397,143 | 211,444 | 16,608,587 |
| **Accumulated depletion and depreciation and impairment loss:** | | | |
| Balance at December 31, 2012 | (16,926,025) | (88,844) | (17,014,869) |
| Depletion and depreciation for the period | (1,195,386) | (51,233) | (1,246,619) |
| Impairment of PPE | (2,092,740) | - | (2,092,740) |
| Reversal of impairment of PPE (note 9) | 3,011,217 | - | 3,011,217 |
| Dispositions | - | 14,230 | 14,230 |
| **Balance at December 31, 2013** | (17,202,934) | (125,847) | (17,328,781) |
| Depletion and depreciation for the period | (1,331,392) | (45,964) | (1,377,356) |
| Dispositions | 18,273,838 | - | 18,273,838 |
| Impairment of PPE (note 9) | (9,403,149) | - | (9,403,149) |
| **Balance at December 31, 2014** | (9,663,637) | (171,811) | (9,835,448) |
| **Net book value:** | | | |
| December 31, 2013 | 16,814,798 | 85,597 | 16,900,395 |
| **December 31, 2014** | **6,733,506** | **39,633** | **6,773,139** |

Future development costs on proved plus probable reserves totaling approximately $3,859,000 (December 31, 2013 - $24,380,000) are included in the depletion calculation.

On August 8, 2014 the Corporation announced that it entered into a joint venture agreement with an arm's length private company to form a joint venture to drill, develop and exploit its Fiske property in south west Saskatchewan. Pursuant to the terms of the joint venture agreement, the joint venture partner agreed to expend $5 million on the property in order to earn a 50% working interest in the Fiske lands and related assets currently held by 3MV Energy. Under the terms of the agreement, the joint venture partner became the operator of the assets. In October 2014, the joint venture partner successfully completed the earning requirements and obtained a 50% working interest in the Fiske properties. As a result of the earning requirements being met, the Corporation recorded a 50% disposition of the Fiske CGU and related E&E assets offset by the addition of the net $2.5 million in Fiske assets expended by the joint venture partner. This transaction resulted in a net loss of $1.97 million at December 31, 2014.

## 8. Exploration and evaluation assets

| Cost | $ |
|---|---|
| December 31, 2012 | 870,394 |
| Additions | 2,055,928 |
| Land expiries and write offs | (229,651) |
| Balance at December 31, 2013 | **2,696,671** |
| Additions | 1,664,523 |
| Disposal through joint venture agreement | (1,607,685) |
| Land expiries and write-offs | (22,965) |
| Transfers to property and equipment | (81,741) |
| **Balance at December 31, 2014** | **2,648,804** |

E&E assets consist of the Corporation's capitalized seismic and land acquisition costs which are pending the determination of commercial viability. The Corporation assesses the recoverability of these assets both before and at the time of transfer to property and equipment within the Corporation's CGUs.

## 9. Impairment loss and impairment reversal

The Corporation assesses the recoverability of the carrying values of its oil and gas properties on a CGU basis. In accordance with IFRS, the recoverable amounts of the Corporation's CGUs were estimated as the FVLCTS based on the net present value of cash flows estimated from oil and natural gas proved plus probable reserves completed by external reserve evaluators.

At December 31, 2014 management determined the Corporation's two CGU's had indicator of impairment as a result of declining forward commodity prices for oil and gas as compared to December 31, 2013 and management assessed the Corporation's two CGUs (Dodsland-Other and Fiske) for indicators of impairment and/or impairment reversal. Accordingly, the Corporation tested both the Dodsland-Other and the Fiske CGUs for impairment. Management used a pre-tax discount rate dependent on reserve classification to discount future cash flows ranging from 8 - 15% based on the nature of the reserves.

The Corporation determined that the aggregate carrying value of the Fiske CGU was $5.1 million higher than the recoverable amount and therefore impairments were recorded (2013 – $2.1 million). The decrease in recoverable amount was mainly related to changes in proved and probable reserve estimates as a result of the reduced commodity prices.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 9. Impairment loss and impairment reversal (continued)

During the second quarter of 2014 management assess the Corporation's Dodsland-Other CGU as having indicators of impairment as a result of the Corporation entering into a purchase and sale agreement to dispose of assets included in the Dodsland-Other CGU in June 2014. Accordingly, the Corporation tested the Dodsland-Other CGU for impairment based on FVLCS. Management used the carrying value of the assets and related abandonment costs less decommissioning liabilities compared to the sale price or fair market value. The Corporation determined that the aggregate carrying value of the Dodsland-Other CGU was $4.3 million higher than the recoverable amount and therefore impairment was recorded.

At December 31, 2014, if the discount rate used had been 2.5% higher the impairment loss recognized on the Fiske CGU would have been $545 thousand higher. If the discount rate used had been 2.5% lower $nil impairment would have been recognized.

The following table shows the future commodity prices used by the Corporation's independent qualified reserves evaluators at December 31, 2014 and December 31, 2013 for certain commodities:

| December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|
| Year | Edmonton Par Price 40° API ($Cdn/bbl) | Natural Gas1 AECO Gas Prices ($Cdn/MMBtu) | Year | Edmonton Par Price 40° API ($Cdn/bbl) | Natural Gas1 AECO Gas Prices ($Cdn/MMBtu) |
| 2015 | 70.35 | 3.32 | 2014 | 87.52 | 3.81 |
| 2016 | 87.36 | 3.71 | 2015 | 84.17 | 3.83 |
| 2017 | 98.28 | 3.90 | 2016 | 84.67 | 4.77 |
| 2018 | 99.75 | 4.47 | 2017 | 96.65 | 4.86 |
| 2019 | 101.25 | 5.05 | 2018 | 98.18 | 4.94 |
| 2020 | 103.85 | 5.13 | 2019 | 99.73 | 5.03 |
| 2021 | 105.40 | 5.22 | 2020 | 101.30 | 5.11 |
| 2022 | 106.99 | 5.31 | 2021 | 102.89 | 5.20 |
| 2023 | 108.59 | 5.40 | 2022 | 104.50 | 5.28 |
| 2024 | 110.22 | 5.49 | 2023 | 106.15 | 5.38 |

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 9. Impairment loss and impairment reversal (continued)

At December 31, 2013 the Corporation determined that the aggregate carrying value of the Fiske CGU was $2.1 million higher than the recoverable amount and therefore impairments were recorded. The decrease in recoverable amount was mainly related to the decrease in forecasted commodity prices and changes in proved and probable reserve estimates.

In 2013, a partial reversal of impairment was recognized relating to a previous impairment for the Corporation's Dodsland-Other CGU. As a result, the Corporation recorded a reversal of impairment of $3.0 million at December 31, 2013. The total combined amount of the impairment recognized and reversed on Corporation total basis during the year ended December 31, 2013, had a net $918 thousand impairment reversal.

At December 31, 2013, if the discount rate used had been fifteen percent the reversal of impairment would have been $8.1 million higher and if the discount rate used had been five percent, the impairment reversal would have been $1.0 million lower. If the discount rate used had been fifteen percent the impairment on the Fiske CGU would have been $932 thousand higher. If the discount rate had been five percent, the impairment reversal would have been $nil.

# 10. Operating loans

| | |
|---|---|
| Balance at December 31, 2013 | 500,000 |
| Draw of loan November 5, 2014 | 6,000,000 |
| Repayment of existing credit facility | (500,000) |
| Issue costs | (73,172) |
| Deferred income tax | (118,410) |
| Transaction costs | (337,013) |
| Accretion of Transaction costs | 17,206 |
| Balance at December 31, 2014 | 5,488,611 |

### Credit facility

On October 8, 2014 the Corporation announced that it had entered into a secured loan facility whereby it may borrow up to $10,000,000 to be made available in two advances at the Corporation's direction. The loan facility bears interest at an annual interest rate of 13% for a term of 3 years expiring on February 28, 2018. On November 5, 2014 the Corporation drew down $6 million on the loan facility. Under the terms of the facility the Corporation may pay up to 3% of the interest by way of quarterly share issuance for the initial six months of the term. Interest is to be paid monthly. The Corporation used a portion of the proceeds from the first Tranche of the loan to repay its previous credit facility. Concurrent with the drawdown on the facility, the Corporation issued warrants entitling the Lender to purchase 12,000,000 common shares of the Corporation at an exercise price equal to $0.25 per share. The Corporation shall issue additional warrants to the lender upon the advancement of the second Tranche at an exercise price equal to the greater of $0.35 per share or the discounted market price at time of issuance.

In exchange for providing the Facility, the Corporation shall provide general security in favor of the Lender over all the real property of the Corporation. The Corporation is subject to an adjusted working capital ratio covenant (to exceed 1.2:1). At December 31, 2014 the Corporation's adjusted working capital ratio was 1.23:1 which is within the allowable amount. The Corporation is also subject to an asset coverage ratio (total present value of assets to be a minimum of 1.0 times total debt until December 31, 2014 and 1.50:1 after). As at December 31, 2014 the Corporation's asset coverage ratio was 0.53:1; which is in violation of the allowable amount. Finally, the Corporation is subject to an interest coverage ratio. For the month ending December 31, 2014 the trailing 30 days interest coverage ratio shall be greater than 3.0:1. After December 31, 2014 the trailing 90 days interest coverage ratio must be greater than 3.0:1. At December 31, 2014 the Corporation's interest coverage ratio was (0.02):1; which is in violation of the covenant. Prior to the end of the year, the Corporation notified the lender of the expected covenant violations and obtained a waiver.

As the warrants that were issued to the lender are separable from the loan, they are treated as a transaction cost and are presented separately from the liability amount. The initial carrying amount of the financial liability is determined by discounting the stream of future payments of interest and principal.

Using the residual method, the transactions costs are the difference between the principal amount and the carrying value of the financial liability. The transaction costs, net of the deferred taxes and issue costs are accreted using the effective interest rate method over the three year term of the facility, such that the carrying amount of the financial liability will equal the $6 million principal balance at maturity.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 11. Convertible debenture

On February 21, 2013 the Corporation issued a $2,000,000 non-brokered private placement financing of convertible debentures to a director and major shareholder of the Corporation. The convertible loan offering consists of a convertible secured, interest-bearing debenture loan of $2,000,000. The term of the debenture is two years and incurs annual interest of 12%, payable monthly, with the Corporation having the privilege to re-pay all or any part of the principal amount without penalty upon giving thirty days' notice of repayment. The loan is convertible at any time until maturity into common shares of the Corporation at a conversion price of $0.27 per share. As at December 31, 2014, the Corporation has accrued unpaid interest on the Convertible debenture in the amount of $180,822. The interest is included in the Corporation's accounts payable (2013 – $60,164). Subsequent to the end of the period the term of the debentures were extended to February 21, 2016.

On November 19, 2012, the Corporation issued a $1,000,000 non-brokered private placement financing of convertible debentures to a director and major shareholder of the Corporation. On November 14, 2014, the debenture holder exercised their option to convert the $1,000,000 debentures into common shares of the Corporation at the stated $0.29 conversion price per share.

The convertible debentures were determined to be compound instruments. As the debentures are convertible into common shares of the Corporation, the liability and equity components are presented separately. The initial carrying amount of the financial liability is determined by discounting the stream of future payments of interest and principal. The convertible debentures are not subject to any financial covenants.

Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the carrying value of the financial liability. The debentures, net of the equity component and issue costs are accreted using the effective interest rate method over the two year term of debentures, such that the carrying amount of the financial liability will equal the $2 million principal balance at maturity respectively.

| | Proceeds<br>$ | Debt Component<br>$ | Equity Component<br>$ |
|---|---|---|---|
| Balance at December 31, 2012 | 984,592 | 938,805 | 36,108 |
| Issue of convertible debenture | 2,000,000 | 1,900,148 | 99,852 |
| Issue costs | (18,608) | (17,679) | (929) |
| Deferred tax | - | - | (25,962) |
| Accretion | - | 64,805 | - |
| Balance at December 31, 2013 | 2,965,984 | 2,886,079 | 109,069 |
| Accretion | - | 98,421 | - |
| Conversion of debentures to common shares | - | (1,000,000) | - |
| Balance at December 31, 2014 | 2,965,984 | 1,984,500 | 109,069 |

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 12. Decommissioning liabilities

| | $ |
|---|---|
| Balance at December 31, 2012 | 1,984,488 |
| Accretion | 50,145 |
| Change in estimate | (224,277) |
| Liabilities incurred | 139,252 |
| Balance at December 31, 2013 | 1,949,608 |
| Accretion | 37,794 |
| Change in estimate | 401,767 |
| Liabilities incurred | 289,093 |
| Disposals | (1,393,014) |
| Balance at December 31, 2014 | 1,285,248 |

The Corporation's decommissioning liabilities results from ownership interests in petroleum and natural gas assets, including well sites and gathering systems. The total future decommissioning obligation was estimated based on the Corporation's net ownership interest in all wells, estimated costs to reclaim and abandon the wells and the estimated timing of the costs to be incurred in future periods. The Corporation used a weighted average risk free rate of 2.08% as of December 31, 2014 (December 31, 2013– 3.09%) and an inflation rate of 2% (December 31, 2013 – 2%) to calculate the net present value of the future cash flows expected to be made in satisfaction of the decommissioning obligation. The change in estimate is calculated as the change in interest period to period. The majority of the costs are estimated to be incurred between the years 2018 and 2038. The total undiscounted decommissioning liability as at December 31, 2014 amounts to $2,843,397 (December 31, 2013 - $3,066,050).

## 13. Extinguishment of Debt

During the year, the Corporation settled outstanding amounts owing to various counterparties whereby the counterparties agreed to accept an amount less than the original balance owing as consideration in full for all outstanding debts. The difference between the carrying amount of the liabilities and the consideration paid totaled $402,809 ($nil - 2013) and was recorded to the statement of comprehensive loss.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

# 14. Income Taxes

(a) Provision for income taxes reflects an effective tax rate which is different from the Federal and Provincial Statutory tax rates. The differences are as follows:

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Income/(Loss) before income tax | (12,767,374) | (1,695,357) |
| Combined Federal and Provincial income tax rate | 27.00% | 27.00% |
| Expected income tax reduction | (3,447,191) | (457,746) |
| Increase (decrease) in income taxes resulting from: | | |
| Share based compensation and non-deductible expenses | 3,379 | 266,102 |
| Flow through shares | - | 17,253 |
| Change in rate | 6,393 | 67,553 |
| Change in unrecognized tax benefits | 3,270,954 | 163,928 |
| Other | 1,462 | (113,091) |
| Income tax expense (reduction) | (165,003) | (56,001) |

The statutory rate was 27% in 2014 (2013-27%).

(a) Unrecognized deferred tax assets:

The temporary differences associated with the Corporation's unrecognized deferred tax assets are as follows:

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Property, Plant and Equipment | 2,935,017 | - |
| Non-Capital Losses | 17,656,559 | 9,201,087 |
| Decommissioning Liabilities | 703,669 | - |
| Share Issue Costs | 245,471 | 404,900 |
| Unrecognized deferred tax assets | 21,540,716 | 9,426,077 |

The Company has not recognized the deferred tax assets associated with these deductible temporary differences because it is uncertain that future taxable profits will be available against which the Company can utilize these benefits.

Recognized deferred tax assets:

The components of the Corporation's recognized deferred tax assets and liabilities are as follows:

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Property, Plant and Equipment | - | (1,841,788) |
| Non-Capital Losses | - | 1,339,637 |
| Decommissioning Liabilities | 157,036 | 526,394 |
| Share Issue Costs | - | - |
| Convertible Debentures | (157,036) | (24,243) |
| Recognized deferred tax assets | - | - |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 15. Share capital

### (a) Authorized

#### Common shares

Class A, unlimited, voting, no par value, subject to priority rights of any other class of shares.

### (b) Issued

| | Number of Shares | $ |
|---|---|---|
| **Balance at December 31, 2012** | **45,439,169** | **27,540,619** |
| Shares issued for debt outstanding (a) | 5,575,233 | 1,333,500 |
| Non-brokered private placements (b) | 203,000 | 42,294 |
| **Balance at December 31, 2013** | **51,217,402** | **28,916,413** |
| Shares issued for interest (c) | 318,817 | 53,212 |
| Conversion of 2012 debentures (d) | 3,448,276 | 1,000,000 |
| **Balance at December 31, 2014** | **54,984,495** | **29,969,625** |

(a) During the year ended December 31, 2013, the Corporation converted $1,393,809 of accounts payable into 5,575,233 common shares and 5,575,233 warrants. The fair value of the warrants issued with the units was determined to be $55,752. Share issuance costs relating to the share for debt conversions totaled $4,557. The fair value of these warrants was estimated using a net asset value calculation of the Corporation as of the date of issuance. The Corporation's calculation yielded the warrants within the units issued to be $0.01.

(b) During 2013, the Corporation closed a non-brokered private placement of 200,000 units at a price of $0.25 per Unit for gross proceeds of $50,000. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Corporation at an exercise price of $0.50 per common share for a period of 18 months following the date of issuance. The fair value of the warrants issued with the units was determined to be $2,000. Share issuance costs relating to the private placement totaled $5,706. The Corporation also issued 3,000 shares at a price of $0.25 as a finder's fee in relation to a private placement in 2012.

(c) During the year ended December 31, 2014, the Corporation settled accrued interest in the amount of $53,212 from the related party loan through the issuance of 318,817 common shares.

(d) On November 14, 2014 the holder of the $1,000,000 debentures issued in 2012, converted the debentures to common shares of the Corporation. The debentures were converted at a conversion price of $0.29 per share, in accordance with the terms of the initial issuance. The debenture holder is a Director and the majority shareholder of the Corporation.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 15. Share capital (continued)

### (c) Warrants

| | # of Warrants | $ |
|---|---|---|
| As at December 31, 2012 | 30,885,426 | 475,094 |
| Warrants issued with non-brokered private placements (a) | 200,000 | 2,000 |
| Warrants issued with shares for debt outstanding (b) | 5,575,233 | 55,752 |
| As at December 31, 2013 | 36,660,659 | 532,846 |
| Expiries (c) | (36,660,659) | (532,846) |
| Warrants issued with credit loan facility (d) | 12,000,000 | 337,013 |
| Balance at December 31, 2014 | 12,000,000 | 337,013 |

a) During 2013, the Corporation closed a non-brokered private placement of 200,000 units that included one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Corporation at an exercise price of $0.50 per common share for a period of 18 months following the date of issuance. The fair value of the warrants issued with the units was determined to be $2,000.

b) During the year ended December 31 2013, the Corporation converted $1,393,809 of accounts payable into 5,575,233 common shares and 5,575,233 warrants. The fair value of the warrants issued with the units was determined to be $55,752.

c) During the year ended December 31, 2014 all prior year issued warrants outstanding expired unexercised. The warrant amount of $532,846 was transferred to contributed surplus upon expiry.

d) On November 5, 2014, the Corporation entered into and drew down $6 million on a new loan facility. Concurrent with the drawdown, the Corporation issued warrants entitling the Lender to purchase 12,000,000 common shares at an exercise price equal to $0.25 per share. As a result of the issuance of the warrants, the loan was determined to be compound instrument. As the warrants that were issued to the lender are separable from the loan, they are treated as a transaction cost and are presented separately from the liability amount. The initial carrying amount of the financial liability is determined by discounting the stream of future payments of interest and principal.

   Using the residual method, the carrying amount of the warrants is the difference between the principal amount and the carrying value of the financial liability. The warrants were determined to have a value of $461,045 before issue costs of $5,622 and a deferred tax recovery of $118,410.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 16. Share-based payments

The Corporation has an employee stock option plan under which employees and directors are eligible to purchase common shares of the Corporation. Options were granted using an exercise price equal to the $3.75 share price from the November 9, 2011 private placement issuance. The options have a term of five years and vest over a two year period starting on the first anniversary date of the grant with one third of the total amount vesting immediately upon granting. Following the qualifying transaction with Noravena Capital Corporation, the options were exchanged at the final post share consolidation exchange ratio of 2.027. In addition to the options issued by 3MV Energy, 65,000 options were previously issued and outstanding to directors of Noravena Capital Corporation at the time of the amalgamation. These options vested immediately at time of the issuance and expire April 30, 2015. The exercise price is $2.00 per share.

On February 28, 2013, the Corporation granted 4,300,000 options. Of the options issued, 3,750,000 were granted to directors of the Corporation. The options have a term of five years and vest immediately at an exercise price of $0.25. The remaining 550,000 options granted to management have a five year term and vest over a three year period starting on the first anniversary date of the grant at an exercise price of $0.25.

On August 23, 2013, the Corporation granted its employees 450,000 options. The options have five year term and vest over a three year period starting on the first anniversary date of the grant at an exercise price of $0.15.

On August 29, 2013, the Corporation conditionally granted 1,500,000 options to its directors. The options have a term of five years and vest immediately at an exercise price of $0.15. The stock option issuance was pursuant to the Corporation's amended stock option plan requiring regulatory and shareholder approval. In June 2014 the Corporation retracted these conditional options resulting in a reversal of $151,842 in share based payments costs previously incurred as a result of service commencement date already occurring.

September 2, 2014 the Corporation granted 1,050,000 to directors of the Corporation. The options have immediate vesting terms and resulted in a onetime stock based compensation expense of $106,093. Concurrent with the issuance, the Corporation experienced the forfeiture of 600,000; all of which were previously subject to immediate vesting terms and fully expensed at the time of issuance in 2013.

Total share based compensation cost of $12,516 (December 31, 2013 – $985,564) was incurred during 2014. The number of options outstanding as at December 31, 2014 totaled 5,120,262 (December 31, 2013 – 6,170,262). The estimated forfeiture rate is adjusted to the actual forfeiture rate when each tranche vests.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 16. Share based payments (continued)

The fair value of the options was estimated using the Black-Scholes model with the following weighted average inputs:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Fair value at grant date | $ 0.10 | $ 0.11 |
| Common share price | $ 0.15 | $ 0.16 |
| Exercise price | $ 0.15 | $ 0.16 |
| Volatility | 86% | 86% |
| Option life | 5 years | 5 years |
| Dividends | 0% | 0% |
| Risk-free interest rate | 1.32% | 1.30% |
| Forfeiture rate | 0% | 50% |

Options Outstanding:

| Stock Options | Weighted average exercise price $ | Stock Options |
|---|---|---|
| Balance December 31, 2012 | 1.87 | 557,902 |
| Granted | 0.22 | 6,250,000 |
| Forfeited | 1.05 | (637,640) |
| Balance December 31, 2013 | **0.28** | **6,170,262** |
| Granted | 0.15 | 1,050,000 |
| Forfeited | 0.25 | (600,000) |
| Reversed | 0.15 | (1,500,000) |
| **Balance December 31, 2014** | **0.30** | **5,120,262** |

The following summarizes information about stock options outstanding and exercisable as at December 31, 2014:

| Exercise Prices | Number outstanding at December 31, 2014 | Weighted average contractual life (years) | Weighted average exercise price/stock option $ | Number exercisable at December 31, 2014 | Weighted average exercise price/stock option $ |
|---|---|---|---|---|---|
| $1.85-$1.90 | 245,262 | 2.02 | 1.86 | 242,087 | 1.86 |
| $0.15-$0.25 | 4,875,000 | 3.53 | 0.22 | 4,628,425 | 0.22 |
| **Total** | **5,120,262** | **3.46** | **0.30** | **4,870,512** | **0.30** |

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 17. General and administrative expenses

The following is a breakdown of the Corporation's general and administrative expense for the period ended:

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Employee payroll and consulting expenses | **387,330** | 518,404 |
| Professional fees | **304,685** | 320,535 |
| Rent | **74,251** | 78,207 |
| Other | **126,964** | 208,860 |
| Total | **893,230** | 1,126,006 |

## 18. Financing Costs

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Interest charges | **642,234** | 418,221 |
| Accretion on decommissioning liabilities | **37,794** | 50,145 |
| Accretion on convertible debentures | **98,421** | 64,805 |
| Accretion on related party loan | **54,240** | - |
| Accretion on transaction costs | **17,206** | |
| Total | **849,895** | 553,171 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 19. Capital management

The Corporation's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Corporation sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the period ended December 31, 2014. As of December 31, 2014 the Corporation was not subject to externally imposed capital restrictions.
The Corporation manages the following as capital:

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Share capital | **29,969,625** | 28,916,413 |
| Warrants | **337,013** | 532,846 |
| Deficit | **(33,892,693)** | (21,290,322) |
| Total capitalization | **(3,586,055)** | 8,158,937 |

For the year ended December 31, 2014 the large increase in deficit and subsequent reduction in capitalization is largely caused by non-cash charges recorded in the statement of comprehensive loss.

## 20. Financial instruments and risk management

### Fair value of financial instruments

The carrying amounts of financial instruments reported on the consolidated statement of financial position approximates their fair values as at December 31, 2014, and December 31, 2013 due to the short-term nature of the instruments. The Corporation does not have any financial assets that are subject to the fair value hierarchy.

### Financial risks

The Corporation's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (interest rates and commodity prices). The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical.

### Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. Credit risk is primarily related to the Corporation's receivables from oil and natural gas marketers and joint venture partners and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. To mitigate credit risk associated with the sale of its production to petroleum and natural gas marketers, the Corporation maintains a policy of transacting with large credit-worthy purchasers.

## 20. Financial instruments and risk management (continued)

The Corporation historically has not experienced any collection issues with its oil and natural gas marketers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Corporation does not typically obtain collateral from joint interest partners; however, in certain circumstances, it may cash-call a partner in advance of the work and as well the Corporation has the ability in most cases to withhold production from joint interest partners in the event of non-payment.

The maximum exposure to credit risk as at:

| | December 31, 2014<br>$ | December 31, 2013<br>$ |
|---|---|---|
| Cash and cash equivalents | **1,620,608** | 80,381 |
| Accounts receivables | **637,013** | 175,718 |
| | **2,257,621** | 256,099 |

### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Corporation's reputation.

As at December 31, 2014, the Corporation had a working capital deficiency of $1.5 million and was in violation of its credit facility financial covenants for which it obtained a waiver from its lender. The Corporation will require additional financing in order to carry out its exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties including those subject to the joint venture agreement. The Corporation may be required to sell certain assets in order to meet its working capital and capital budget requirements.

The Corporation would ideally fund its capital expenditure program from internally generated cash flow, debt, farm outs and additional equity or other funding if available on favorable terms. The Corporation has from time to time disposed of assets that are deemed non-core if accretive. Please refer to note 2 for details on the Corporations going concern assumption.

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments.

***Foreign exchange risk***

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Corporation's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. As at December 31, 2014 and December 31, 2013 the Corporation had no monetary assets or liabilities denominated in foreign currency.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 20. Financial instruments and risk management (continued)

***Commodity price risk***

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the local, national and international economy and other events that dictate the levels of supply and demand. The Corporation has not attempted to mitigate commodity price risk through the use of financial derivative contracts. The Corporation will continue to focus on internal cost cutting measures to ensure operating margins are at a profitable level to offset the effect of commodity price fluctuations on cash flows.

***Interest rate risk***

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rates. The Corporation is not currently exposed to significant interest rate risk as it current operating loan, convertible debentures and related party loan are subject to a fixed interest rate. However the Corporation will continue to monitor market interest rates on potential future banking arrangements.

## 21. Commitments

The Corporation has operating lease commitments for office premises that expire in 2017. The future minimum lease payments are as follows:

| | $ |
|---|---|
| 2015 | 85,469 |
| 2016 | 89,078 |
| 2017 | 7,423 |

## 22. Supplemental cash flow information

Changes in non-cash working capital from operating activities is comprised of:

| | Year ended December 31, 2014 $ | Year ended December 31, 2013 $ |
|---|---|---|
| Source (use) of cash: | | |
| Accounts receivables | (461,295) | 89,706 |
| Prepaid expenses and deposits | (316,141) | 107,074 |
| Long term liability | (220,175) | (269,103) |
| Accounts payables and accruals | 544,276 | 632,724 |
| Change in non-cash working capital | (453,335) | 560,401 |

Changes in non-cash working capital from investing activities is comprised of:

| | Year ended December 31, 2014 $ | Year ended December 31, 2013 $ |
|---|---|---|
| Source (use) of cash: | | |
| Accounts payables and accruals | (1,943,602) | (664,737) |
| Change in non-cash working capital | (1,943,602) | (664,737) |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 23. Earnings per share

Basic and diluted income (loss) per share

| | Loss for the period $ | Weighted average number of shares # | Per share amount $ |
|---|---|---|---|
| Year ended December 31, 2014 | | | |
| Basic and diluted | (12,602,371) | 51,597,316 | (0.24) |
| Year ended December 31, 2013 | | | |
| Basic and diluted | (1,639,356) | 50,454,759 | (0.03) |

The effect of warrants and stock options outstanding on loss per share for the periods ended December 31, 2014 and December 31, 2013 is anti-dilutive.

## 24. Related party transactions

The consolidated financial statements include the financial statements of 3MV Energy Corp. and its subsidiaries listed in the following table:

| Name | Country of incorporation | % ownership interest December 31, 2014 | % ownership interest December 31, 2013 |
|---|---|---|---|
| 3MV Energy Operations Inc. | Canada | 100% | 100% |
| 1696704 Alberta Ltd. | Canada | 100% | 100% |
| 3 Martini Ventures Inc. | Canada | 100% | 100% |
| Buckhorn Resource Ltd. | Canada | 100% | 100% |

Balances and transactions between 3MV Energy Corp. and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During 2014 the Corporation obtained a $2.0 million secured draw down facility loan from a director and major shareholder of the Corporation. The loan has an annual interest rate of 8%, and matures on June 1, 2016. Included in the loan is a provision whereby accrued interest will be settled quarterly through the issuance of common shares in the Corporation at the average market price of the last five trading days at time of disbursement. As of December 31, 2014 $1.98 million has been drawn on the facility. Interest in the amount of $50 thousand has been accrued as at December 31, 2014.

## 24. Related party transactions (continued)

The fair value of the loan has been determined to be an amount less the face value due at maturity as the loan's interest rate is less than that the Corporation would reasonably be able to obtain from an arm's length third party. During the period, the Corporation's arm's length credit facility incurred interest at a rate of 16%. The difference between the fair value and the face value of the loan is classified as a shareholder contribution. The loan, net of the share contribution amount is accreted using the effective interest rate method over the two year term, such that the carrying amount of the financial liability will equal the full amount loaned at maturity. Share contribution amount has been recorded in contributed surplus.

| | Proceeds $ | Debt Component $ | Share Contribution $ |
|---|---|---|---|
| Balance at December 31, 2013 | - | - | - |
| Loan | 1,987,372 | 1,808,168 | 179,204 |
| Accretion | - | 54,240 | - |
| Deferred tax | | | (46,593) |
| Balance at December 31, 2014 | 1,987,372 | 1,862,408 | 132,611 |

On February 21, 2013 the Corporation issued a $2,000,000 non-brokered private placement financing of convertible debentures to a director and major shareholder of the Corporation. The term of the debenture is two years and incurs annual interest of 12% with the Corporation having the privilege to re-pay all or any part of the principal amount without penalty upon giving thirty days' notice of repayment.

On November 19, 2012 the Corporation closed a $1,000,000 non-brokered private placement financing of convertible debentures to a director and major shareholder of the Corporation. The term of the debenture is two years and incurs annual interest of 12% with the Corporation having the privilege to re-pay all or any part of the principal amount without penalty upon giving thirty days' notice of repayment. On November 14, 2014 the holder of the debentures converted the debentures to common shares of the Corporation. The debentures were converted at a conversion price of $0.29 per share, in accordance with the terms of the initial issuance.

### Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the period were as follows:

| | December 31, 2014 $ | December 31, 2013 $ |
|---|---|---|
| Salaries | **147,528** | 261,066 |
| Share based payments | **(6,556)** | 856,636 |
| Total | **140,972** | 1,117,702 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

## 25. Subsequent events

Subsequent to the end of the period, the Corporation amalgamated Buckhorn Resources Ltd. and 3 Martini Ventures Inc., two wholly owned subsidiaries, into 3MV Operations Inc.

On January 12, 2015 the Corporation issued 424,106 shares in relation to interest payable on its $2 million related party loan and $6 million secured credit facility.

On March 6, 2015 the Corporation amended and extended its outstanding $2,000,000 convertible debentures for one year from original expiry to February 21, 2016.

On April 2, 2015 the Corporation issued 841,310 shares in relation to interest payable on its $2 million related party loan and $6 million secured credit facility.