Consolidated Financial Statements of

ENHANCED OIL RESOURCES INC.

Years ended December 31, 2015 and 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Enhanced Oil Resources Inc.

We have audited the accompanying consolidated balance sheets of Enhanced Oil Resources Inc. (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Enhanced Oil Resources Inc. as of December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards.

Hein + Associates LLP

Hein & Associates LLP
Houston, Texas

April 29, 2016

ENHANCED OIL RESOURCES INC.

Consolidated Balance Sheets
(all amounts expressed in thousands of US dollars)

	Notes	As of December 31, 2015	As of December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		$ 1,257	$ 4,079
Restricted cash	5	1,248	-
Receivables	6	293	503
Prepaid expenses and other deposits		251	419
		3,049	5,001
Non-current assets			
Exploration and evaluation assets	7	-	10,889
Property and equipment	8	40,424	37,090
Restricted cash	5	3,025	5,502
Other		74	106
Total Assets		$ 46,572	$ 58,588
Liabilities And Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	10	$ 701	$ 951
Derivative financial instruments	16	-	39
Asset retirement obligations	9	84	638
		785	1,628
Asset retirement obligations	9	18,977	24,972
Shareholders' equity			
Equity instruments	12	124,166	124,166
Contributed surplus		9,256	9,256
Accumulated deficit		(106,612)	(101,434)
		26,810	31,988
Total Liabilities and Shareholders' Equity		$ 46,572	$ 58,588
Commitments	15		
Subsequent Events	22		

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

/s/ Al Denson	/s/ Andrew Hromyk
Al Denson	Andrew Hromyk
Director	Director

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Operations and Comprehensive Loss
(all amounts expressed in thousands of US dollars)

	Notes	Year Ended December 31, 2015	Year Ended December 31, 2014
Revenues			
Oil and gas gross sales		$ 1,358	$ 8,001
Less: Royalties		(293)	(1,665)
		1,065	6,336
Expenses			
Operating costs, production costs and taxes		1,393	3,788
Workover expenses		809	3,464
General and administrative		2,613	3,752
Gain on disposition of assets	7, 8	(42)	(106)
Depreciation, depletion, and amortization	7, 8	959	1,509
Accretion	9	427	608
Other, net	9	9	23
Loss (gain) on derivative financial instruments, net	16	75	(256)
Foreign currency translation gain		-	(7)
		6,243	12,775
Loss before income taxes		(5,178)	(6,439)
Income tax provision	11	-	-
Net comprehensive loss for the period		(5,178)	(6,439)
Loss per share - basic and diluted	12	$ (0.32)	$ (0.40)

See accompanying notes to consolidated financial statements.

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Shareholders' Equity

(all amounts, except common shares, expressed in thousands of US dollars)

		Number of Common Shares			
		December 31,		December 31,	
	Notes	2015	2014	2015	2014
Total Shareholders' Equity, beginning balances				$ 31,988	$ 38,427
Equity Instruments (Common Shares)					
Balance, January 1		16,018,586	16,018,586	124,166	124,166
Retired stock, no par value	12	(9,776)	-	-	-
Balance, December 31		16,008,810	16,018,586	124,166	124,166
Contributed Surplus					
Balance, January 1				9,256	9,256
Balance, December 31				9,256	9,256
Accumulated Deficit					
Balance, January 1				(101,434)	(94,995)
Net loss				(5,178)	(6,439)
Balance, December 31				(106,612)	(101,434)
Total Shareholders' Equity, ending balances				$ 26,810	$ 31,988

See accompanying notes to consolidated financial statements.

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Cash Flows
(all amounts expressed in thousands of US dollars)

	Notes	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash provided by (used in):			
Operating activities			
Net loss for the year		$ (5,178)	$ (6,439)
Add (deduct) noncash and other items:			
Depreciation, depletion, and amortization	7, 8	959	1,509
Accretion of asset retirement costs	9	427	608
(Gain) on disposition of assets	7, 8	(42)	(106)
Unrealized loss on derivative financial instruments	16	-	39
Foreign currency translation gain		-	(7)
Non-cash other expense		31	-
		(3,803)	(4,396)
Asset retirement expenditures	9	(345)	(158)
Changes in non-cash working capital	19	(140)	(1,611)
Cash used in operations		(4,288)	(6,165)
Investing activities			
Exploration and evaluation expenditures	7	-	(130)
Property and equipment expenditures	8	(87)	(770)
Decreases in restricted cash, net	5	1,229	43
Proceeds from sale of assets	7, 8	24	9,852
Cash provided by investing activities		1,166	8,995
Financing activities			
Proceeds from private placement funding	10, 21	300	-
Cash provided by financing activities		300	-
Change in cash and cash equivalents		(2,822)	2,830
Cash and cash equivalents, beginning of the period		4,079	1,249
Cash and cash equivalents, end of period		$ 1,257	$ 4,079

See accompanying notes to consolidated financial statements.

1. Reporting Entity and Description of Business

Enhanced Oil Resources Inc. is a company incorporated in British Columbia, Canada and is engaged, through its wholly-owned U.S. subsidiaries (collectively referred to as the "Company") in the acquisition, development, operation and exploitation of crude oil and natural gas properties in the Permian Basin in eastern New Mexico, United States.

Common shares of the Company are listed on the TSX Venture Exchange ("TSXV") under the symbol "EOR" and quoted on the OTCQX ("Over the Counter" qualified stock exchange) under the symbol "EORIF". The address of the registered office of the Company is 940, 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1.

2. Basis of Presentation and Summary of Significant Accounting Policies

Statement of Compliance

These consolidated financial statements represent the consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The accounting policies set out in this note have been applied in preparing the consolidated financial statements for the years ended December 31, 2015 and 2014. These financial statements were approved and authorized for issuance by the Board of Directors on April 29, 2016.

Basis of Presentation

Functional Currency – These consolidated financial statements are presented in United States dollars, unless otherwise indicated, which management has determined to be the Company's functional currency. All references to US$ or to $ are to United States dollars and references to C$ are to Canadian dollars.

Basis of Measurement and Estimation Uncertainty – The consolidated financial statements are prepared on a historical cost basis except as detailed in the Company's accounting policies disclosed in this note. The timely preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements, and the amount of revenues and expenses. Accordingly, actual results may differ from these estimates.

Principles of Consolidation and Presentation – The consolidated financial statements of the Company include the financial information of Enhanced Oil Resources Inc. (the "Parent Company") and its wholly-owned subsidiary, Ridgeway Petroleum (Florida), Inc. ("RF"). RF includes the results of its wholly-owned subsidiaries, Enhanced Oil Resources USA Inc. and Arizona Resources Industries, Inc. ("ARI"), ARI includes the results of its wholly-owned subsidiaries, Ridgeway Arizona Oil Corp., EOR Operating Company, St. Johns Dome Operating Company and Phoenix Energy Inc. Ridgeway Arizona Oil Corp. includes the results of its wholly-owned subsidiary, Ridgeway SPV Inc. All intercompany amounts have been eliminated upon consolidation.

Reclassifications – Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

Foreign Currency Translation – These consolidated financial statements are presented in United States dollars, unless otherwise indicated. Items included in the consolidated financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates that are prevailing at the dates of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates for monetary assets and liabilities denominated in currencies other than the entities functional currency are recognized in the statement of operations. Revenues and expenses are translated at average exchange rates prevailing during the period.

Revenue Recognition – Revenue is measured at the fair value of consideration received or receivable, and represents the amounts receivable for commodities supplied, stated net of royalties, when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Company. This generally occurs at the time the product transfers to the purchaser.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less when purchased.

Restricted Cash – Restricted cash is comprised of cash escrowed and certificates of deposit at banks which are pledged either to secure contractual obligations of the Company or to secure the asset retirement obligations of properties operated by the Company.

Exploration and Evaluation Assets – Pre-license expenditures are expensed in the period of which they are incurred. The costs to acquire oil and gas properties or leases to explore, exploratory well expenditures, estimated cost of asset retirement obligations, delay rentals, lease bonus payments and the costs to evaluate the commercial potential of underlying resources, including related borrowing costs, are initially capitalized as exploration and evaluation assets. In addition, the costs to maintain and evaluate major development costs are capitalized as exploration and evaluation assets.

Exploration and evaluation assets are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. If an area or exploration well is not considered commercially viable, the related capitalized costs are charged to profit and loss. The Company intends to conduct reactivation and development operations in reservoirs that have already produced significant amounts of oil over many years. When management determines with reasonable certainty that an exploration and evaluation asset is technically feasible and commercially viable as evidenced by the existence of proved or probable reserves, and the appropriate internal and external approvals have been met, the asset is transferred to property and equipment.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development oil and gas assets within property and equipment assets. No depletion is charged during the exploration and evaluation phase, with the exception of assets that are held by production.

Property and Equipment – Property and equipment includes costs directly attributable to oil and natural gas development and production and office furniture and equipment. Property and equipment is recorded at cost less accumulated depletion, depreciation, and impairment losses net of recoveries.

The costs to acquire developed or producing oil and gas properties and to develop oil and gas properties, including land acquisitions, the acquisition of producing petroleum and natural gas assets, drilling of productive and nonproductive wells, the completion of geological and geophysical surveys, costs to construct and install dedicated infrastructure such as wellhead and production equipment, water handling facilities and equipment, and supporting assets, are capitalized as oil and gas properties within property and equipment.

The costs to construct, install and commission, or acquire, oil and gas production equipment, tertiary recovery facilities, pipeline and transport facilities, and costs related to asset retirement obligations, are capitalized as property and equipment. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized.

Depreciation and Depletion – Exploration and evaluation assets are not subject to depreciation and depletion. Once transferred to property and equipment, these costs along with estimated future capital expenditures to be incurred in order to develop proved reserves are depleted on a unit-of-production basis on the cash generating unit (CGU) level using estimated proved oil and natural gas reserves as evaluated by independent engineers.

Depreciation of office equipment and vehicles are depreciated using the straight-line method over five years, office furniture and leasehold improvements are depreciated using the straight-line method over the shorter of the lease term or seven years, and computer software is depreciated using the straight-line method over three years.

Impairment of Non-Financial Assets

Exploration and Evaluation Assets

Exploration and evaluation assets are tested for impairment when reclassified to development oil and gas assets as part of property and equipment or whenever the facts and circumstances indicate impairment. An impairment loss is recognized for the amount by which the exploration and evaluation asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use. For the purpose of assessing impairment, the exploration and evaluation assets subject to testing are grouped within existing CGUs of producing fields that are located in the same geographical region.

Oil and Gas Properties

Oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. In evaluating for possible impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (CGU level) that are largely independent of the cash inflows of other assets or CGUs. An impairment loss is recognized for the amount by which the carrying amount of the individual asset or CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal or the value-in-use. In determining the fair value less costs of disposal, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used. Value-in-use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

Impairments can be reversed for all CGUs and individual assets, other than goodwill, to the extent that events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. The Company recognized no impairments during each of the years ended December 31, 2015 and 2014.

Asset Retirement Obligations – Provisions are recognized for asset retirement obligations associated with tangible long-lived assets, such as well sites and facilities. Provisions for asset retirement obligations are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligations; and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that represents the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as accretion and included in the statement of operations.

Costs associated with the provision for asset retirement obligations are recognized as part of the cost of the related asset. Changes in the measurement of existing retirement obligations are added to or deducted from the cost of the related asset.

Provisions and Contingencies – Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management’s best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value when the effect is material.

When a contingency, substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

Current and Deferred Taxes – The tax expense for the period comprises current and deferred tax. Tax expense is recognized in the statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business

combination that at the time of the transaction affects neither accounting nor taxable profit or loss.
Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxing authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Stock-Based Compensation – The Company has a stock-based compensation plan, under which the Company receives services from directors, employees, and consultants as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of options is recognized as an expense. The fair value of stock option grants is determined using the Black-Scholes option pricing model.

The total expense is recognized over the vesting period of each separate tranche of options granted. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to the original estimate, if any, in the statement of operations, with a corresponding adjustment to equity.

When options are exercised, the Company issues new common shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Financial Instruments

Financial Assets – Non-Derivative

The Company classifies its financial assets into the following categories: “fair value through profit or loss”, “available-for-sale”, or “loans and receivables”. Financial assets are recognized on the date that the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the instrument have expired or substantially all the risk and rewards of ownership have been transferred.

Financial assets classified at fair value through profit and loss are initially recognized at fair value and transaction costs are expensed in the consolidated statements of operations. They are subsequently carried at fair value. Gains and losses arising from changes in the fair value are presented in the consolidated statements of operations in the period in which they arise. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. In addition, the Company’s cash and cash equivalents and restricted cash are classified at fair value through profit and loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'receivables' in the consolidated balance sheet.

Financial Liabilities – Non-Derivative

The Company classifies its financial liabilities as "Other financial liabilities". Other financial liabilities include accounts payable and accrued liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Derivative Financial Instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract was entered into and are subsequently re-measured at their fair value with changes in the fair value immediately recognized in the statement of operations.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract. Contracts are assessed for embedded derivatives when the Company becomes a party to them, including at the date of a business combination. The Company has not identified any embedded derivatives.

Share Capital – Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings Per Share – Earnings per share is calculated by dividing net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method. The treasury stock method assumes the notional exercise of all in-the-money stock options, warrants and agency options and that all notional proceeds to the Company are used to repurchase the Company's common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

3. Significant Judgments and Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis and involve significant estimation uncertainty which have a significant risk of causing adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognized in the year in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these consolidated financial statements are outlined below:

Share-Based Payments – The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value requires the determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model, including the expected life of the option, risk free interest rates, volatility, dividend yield (if any) and making assumptions thereon. Refer to note 12 for more details about methods and assumptions used in estimating fair values.

Deferred Income Tax Assets – Assessing the recoverability of deferred income tax assets requires significant estimates related to expectations of future taxable income based on forecasted cash flows from operations as well as interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability to realize deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 11 for further details.

Financial Instruments – The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity prices. The fair value of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data, including quoted commodity prices and volatility. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and, as such, are subject to measurement uncertainty. Refer to note 16 for further details.

Oil and Natural Gas Reserves – Certain depletion, depreciation, impairment and asset retirement obligation charges are measured based on the Company's estimate of proved and probable oil and gas reserves and resources. The estimation of proved and probable reserves and resources is an inherently complex process and involves the exercise of professional judgment. Oil and natural gas reserves have been evaluated at December 31, 2015 and December 31, 2014 by independent petroleum engineers in accordance with National Instruments 51-101 "*Standards of Disclosure for Oil and Gas Activities*".

Oil and natural gas reserve estimates are based on a range of geological, technical and economic factors, including projected future rates of production, estimated commodity prices, engineering data, and the timing and amount of future expenditures, all of which are subject to uncertainty. Assumptions reflect market and regulatory conditions existing at the reporting date, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves and resources.

Impairment of Assets – The Company evaluates its assets for possible impairment at the CGU level. The determination of CGUs requires judgment in defining the smallest 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 allocation of assets into CGUs has been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type, the existence of active markets, similar exposure to market risks, and the way in which management monitors the operations.

The recoverable amounts of CGUs and individual assets have been determined based on the higher of fair value less costs of disposal model and value in-use model. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are: anticipated future commodity prices, expected production volumes, future operating and development costs, estimates of inflation on costs and expenditures, expected income taxes and discount rates. In addition, the Company considers the current environmental, social and governance issues affecting its property interests and operations, including the current legislative and regulatory activity affecting the permitting and approval of its projects and operations. Changes to these assumptions will affect the estimated recoverable amounts attributed to a CGU or individual assets and may then require a material adjustment to their related carrying value.

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of a property's technical feasibility and commercial viability based on proved and probable reserves as well as related future cash flows.

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

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Asset Retirement Obligations – The Company estimates and recognizes liabilities for future asset retirement obligations and restoration of exploration and evaluation assets, and for oil and gas development and producing assets. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration, technological advances and the possible future use of the asset. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new restoration techniques, operating experience and prices. The expected timing of future retirement and restoration may change due to these factors, as well as affect the estimates of reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented. The Company has chosen to use a risk-free rate for discounting asset retirement obligations.

4. New Accounting Standards

There are no new standards or amendments to existing standards effective January 1, 2015.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements.

IFRS 9: Financial Instruments

The complete version of *IFRS 9* was issued in July 2014. It replaced guidance in *IAS 39* that relates to the classification and measurement of financial instruments. *IFRS 9* retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in *IAS 39*. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. *IFRS 9* relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under *IAS 39*. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has not fully assessed the impact of *IFRS 9*.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces *IAS 18 Revenue* and *IAS 11 Construction Contracts* and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company has not fully assessed the impact of *IFRS 15*.

IFRS 16: Leases

In January 2016, the IASB issued *IFRS 16 Leases*. It replaces the existing leasing standard (*IAS 17 Leases*) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. *IFRS 16* is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

IAS 1: Presentation of Financial Statements

In December 2014, the IASB issued amendments to *IAS 1*, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to *IAS 1* may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. The Company does not expect the impact of the amendments to *IAS 1* will have a material effect on the Company's consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(All amounts in thousands of US dollars unless otherwise indicated)

5. Restricted Cash

Restricted cash is comprised of bank deposits which are pledged either to secure contractual obligations (see Note 15 – Commitments) or to secure plugging and abandonment obligations for properties operated by the Company's subsidiaries.

The following table summarizes restricted cash balances:

	December 31, 2015	December 31, 2014
Escrow deposit for St. Johns Dome contingent obligations	$ 1,247	$ 2,500
Bank deposits pledged to secure asset retirement obligations	3,026	3,002
Balance, end of year	$ 4,273	$ 5,502
Short -term	$ 1,248	$ -
Long-term	$ 3,025	$ 5,502

In September of 2015, Kinder Morgan released approximately $1.25 million of the Company's restricted cash from escrow (see Note 15 – Commitments and Note 22 – Subsequent Events).

6. Receivables

The Company's receivables at December 31, 2015 and 2014 were comprised of amounts due from crude oil purchasers of $0.1 million each year and other receivables of $0.2 million and $0.4 million, respectively. Management does not consider any of the receivable balances to be impaired. The carrying amount of receivables approximates the fair value due to the short term nature of the financial instrument.

(All amounts in thousands of US dollars unless otherwise indicated)

7. Exploration and Evaluation Assets

Exploration and evaluation asset activity for the years ended December 31, 2015 and 2014 was as follows:

	Notes		Oil and Gas Properties
Balance, December 31, 2013		**$**	**42,121**
Additions			130
Dispositions			(3,957)
Change in estimate of asset retirement obligations	9		1,791
Transfers to property and equipment	8		(28,995)
Transfers to workover expense			(46)
Depletion			(155)
Balance, December 31, 2014		**$**	**10,889**
Transfers to property and equipment	8		(10,889)
Balance, December 31, 2015		**$**	**-**
Net book value:			
December 31, 2014		$	10,889
December 31, 2015		$	-

Exploration and evaluation assets include lands and assets that management has not fully evaluated for technical feasibility and commercial viability. Transfers to property and equipment are made when technical feasibility and commercial viability are determined to exist. During 2015, the Company transferred all its exploration and evaluation assets to property and equipment within the CGU related to such assets and thus was subject to depletion expense during the period.

In 2014, proved and probable reserves were attributed to the Chaveroo field and exploration and evaluation costs of $23.0 million were transferred to property and equipment. Also, in 2014, probable reserves were identified in the Milnesand field and exploration and evaluation costs of $6.0 million were transferred to property and equipment. In 2015, the Company transferred the final $10.9 million of recorded exploration and evaluation asset costs to property and equipment and allocated $0.6 million and $10.3 million to the Chaveroo and the Milnesand fields, respectively. These property interests were tested for impairment prior to the transfer of these costs to property and equipment in both 2014 and 2015 in accordance with IAS 36, *Impairment of Assets.* These tests estimated on a value-in-use basis of the recoverable amounts of the future net cash flows of proved and probable reserves using 2014 discount rates of 12% and 15%, respectively for the Chaveroo field and 10% and 10%, respectively for the Milnesand field.

In February 2014, the Company disposed of certain property interests located in three counties in Texas for cash consideration of $0.4 million, net of selling costs and assumption of asset retirement obligations of $0.3 million. The Company recorded a loss of $1.1 million on the property disposition.

For the years ended December 31, 2015 and 2014, the Company was not required under IFRS 6, *Exploration for and Evaluation of Mineral Resources*, to record an impairment of the carrying amount of exploration and evaluation assets.

(All amounts in thousands of US dollars unless otherwise indicated)

8. Property and Equipment

Property and equipment activity for the year ended December 31, 2015 and 2014 was as follows:

	Notes		Oil and Gas Properties		Other		Total
Balance, December 31, 2013		**$**	**20,436**	**$**	**1,420**	**$**	**21,856**
Additions			796		20		816
Dispositions			(12,456)		(31)		(12,487)
Transfer from exploration and evaluation assets	7		28,995		-		28,995
Change in discount rate of asset retirement obligations	9		1,202		-		1,202
Balance, December 31, 2014		**$**	**38,973**	**$**	**1,409**	**$**	**40,382**
Additions			165		87		252
Dispositions			-		(673)		(673)
Transfer from exploration and evaluation assets	7		10,889		-		10,889
Change in discount rate of asset retirement obligations	9		(409)		-		(409)
Change in estimated cost of asset retirement obligations	9		(6,387)		-		(6,387)
Balance, December 31, 2015		**$**	**43,231**	**$**	**823**	**$**	**44,054**
Accumulated depreciation and depletion:							
Balance, December 31, 2013		**$**	**(6,392)**	**$**	**(979)**	**$**	**(7,371)**
Depreciation and depletion			(1,164)		(190)		(1,354)
Dispositions			5,408		25		5,433
Balance, December 31, 2014		**$**	**(2,148)**	**$**	**(1,144)**	**$**	**(3,292)**
Depreciation and depletion			(814)		(145)		(959)
Dispositions			-		621		621
Balance, December 31, 2015		**$**	**(2,962)**	**$**	**(668)**	**$**	**(3,630)**
Net book value:							
December 31, 2014		$	36,825	$	265	$	37,090
December 31, 2015		$	40,269	$	155	$	40,424

The Company sold its interest in the Crossroads field on October 16, 2014, with an effective date of September 1, 2014, for $10.0 million and realized net proceeds of $9.7 million after consideration of normal effective date to close adjustments. In connection with the sale, the Company recorded a gain of $1.2 million on the transaction, net of liabilities assumed by the purchaser.

The Company included $95.6 million in 2015 ($133.5 million in 2014) of future development costs in the computation of depletion expense. No general and administrative costs have been capitalized with regard to property and equipment. Impairment reviews were conducted for the years presented and no impairments were recorded.

For the year ended December 31, 2015, the Company conducted an assessment of the impairment indicators for the Company's CGUs. In performing the review, management noted the decline in oil prices and the impact to operating performance and financial condition justified the calculation of the recoverable amounts of all CGUs. In addition, at December 31, 2015, the carrying amount of the net assets of the Company is more than its market capitalization. Fair value less costs of disposal was calculated using a discounted cash flow analysis. These calculations require the use of estimates. The present value of future cash flows was computed by applying forecast prices of reserves to estimated future production, less the future estimated expenditures to be incurred in developing and producing proved reserves. The present value of future cash flows was computed by the Company's independent reserves evaluators using a discount rate of 10% for both the Milnesand field and Chaveroo field CGUs. The selection of discount rate reflects estimates of the specific risks related to the underlying CGU. There were no impairment losses recorded at December 31, 2015 and 2014.

(All amounts in thousands of US dollars unless otherwise indicated)

The fair value less costs of disposal used to determine the recoverable amounts of property and equipment and exploration and evaluation assets are classified at Level 3 fair value measurements, as they are not based on observable market data.

9. Asset Retirement Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the estimated future obligations associated with the retirement of oil and gas properties:

Balance, December 31, 2013	**$**	**23,722**
Increase in provision due to change in discount rates		2,992
Increase in provision due to passage of time (accretion)		608
Decrease in provision due to asset disposition		(1,554)
Asset retirement costs incurred		(158)
Balance, December 31, 2014	**$**	**25,610**
Decrease in provision due to change in discount rates		(409)
Increase in provision due to passage of time (accretion)		427
Decrease in provision due to change in estimate		(6,387)
Increase in provision due to asset addition		165
Asset retirement costs incurred		(345)
Balance, December 31, 2015	**$**	**19,061**

The total undiscounted amount of estimated future cash flows required to settle the obligations as of December 31, 2015 is $25.4 million (2014 - $34.7 million), which has been discounted using risk free rates from 0.65% to 2.84% and an assumed inflation rate of 1.50%. These obligations are expected to be settled over the next twenty-five years and will be funded from general Company resources at the time of retirement.

At December 31, 2015, the Company estimated plugging obligations of $1.6 million and $0.7 million for active leases administered by the Bureau of Land Management (BLM) and for active leases administered by the New Mexico Oil Conservation Division (OCD), respectively, in its Milnesand field. In addition, the Company estimated plugging obligations of $1.7 million and $7.8 million for active BLM leases and for active OCD leases, respectively, in its Chaveroo field. Total estimated plugging obligations for expired leases (all in the Chaveroo field) was $4.4 million.

(All amounts in thousands of US dollars unless otherwise indicated)

The table below summarizes the Company's total estimated plugging obligation by field at December 31, 2015.

	Active Leases		Expired Leases			Total
	BLM	OCD	BLM	OCD	Facilities	Liability
Milnesand Field	1,608	731	-	-	606	2,945
Chaveroo Field	1,712	7,767	1,612	2,787	2,238	16,116
Balance, December 31, 2015	**$ 3,320**	**$ 8,498**	**$ 1,612**	**$ 2,787**	**$ 2,844**	**$ 19,061**

During the second half of 2015, the Company executed an abandonment program in compliance with BLM requirements. Under this program, nine wells on the Company's property in New Mexico, the Chaveroo field, that are no longer capable of producing oil were plugged at a cost of $0.40 million. These abandonments satisfied all requirements for 2015.

The $0.084 million recorded as current asset retirement obligations at December 31, 2015 represents the amount the Company anticipates spending in 2016 on surface reclamation activities associated with recent well plugging activities.

10. Accounts Payable and Accrued Liabilities

The Company's trade payables at December 31, 2015 and 2014 were $0.2 million and $0.5 million respectively. The Company's accrued liabilities at December 31, 2015 and 2014 were $0.5 million and $0.4 million, respectively.

During 2015, the Company received $0.3 million in connection with the private placement discussed in Note 21 – Private Placement. Until completion of the private placement and approval by the TSX Venture Exchange, the funds have been recorded in other current liabilities on the consolidated balance sheet.

11. Income Taxes

Total income tax expense differed from the amount computed by applying the Canadian statutory tax rate of 25.0% (25.0% - 2014) to loss before income taxes as a result of the following:

	December 31, 2015	December 31, 2014
Statutory tax rate	25.00%	25.00%
Loss for the year before income taxes	$ 5,178	$ 6,439
Expected income tax benefit	(1,295)	(1,610)
Adjustments to reconcile expected income tax benefit to actual:		
Unrecognized benefit of losses	2,099	2,552
Differences between statutory and expected tax rate	(804)	(942)
Actual income tax benefit	$ -	$ -

The Company did not recognize deferred tax assets with respect to the following temporary differences and tax losses as it is not probable that there would be sufficient future taxable profits for their utilization, since there is no assurance that a benefit will be realized.

	December 31, 2015		December 31, 2014	
Tax loss carry forwards	$	35,408	$	33,351
Asset retirement obligation		7,490		9,811
Tax assets not recognized		(42,898)		(43,162)
	$	-	$	-

The Company has net operating loss carryforwards of approximately $78.3 million available in the United States, of which approximately $65.7 million do not begin to expire until 2032.

12. Equity Instruments

Share Consolidation – Effective January 15, 2015, the Directors of the Company authorized the implementation of a share consolidation (the "Consolidation") of one post-Consolidation common share for every ten pre-Consolidation common shares. The Company's shares began trading on the post-Consolidation basis on January 21, 2015, and, accordingly, all references to the outstanding common shares and the common share options of the Company in these financial statements have been restated to give effect to the consolidation as if the number of shares or options were effective for all periods presented.

Authorized Shares – The Company is authorized to issue an unlimited number of common shares with no par value and up to 25 million preference shares with no par value.

Issued and Outstanding – During 2015, retired 9,776 common shares, reducing the outstanding shares of common stock to 16,008,810 at December 31, 2015.

Stock option plan – The Company has a stock option plan under which up to 10% of the number of outstanding common shares may be reserved for issuance as of any particular stock option grant date. The stock options were granted with a five-year expiry term. The exercise prices for all outstanding options are denominated in Canadian dollars, the trading currency of the Company's common shares. On January 21, 2015 (see "Share Consolidation" above), all option amounts were adjusted to reflect the Consolidation, including the corresponding option exercise prices related to individual unexercised grants outstanding.

Option activity for the years ended December 31, 2015 and 2014 are as follows (option shares in thousands and exercise price in Canadian Dollars):

	Number of Options	Weighted-Average Exercise Price (C$)	
Outstanding, December 31, 2013	1,109	$	2.36
Expired	(329)		3.04
Forfeited	(375)		1.97
Outstanding, December 31, 2014	405	$	2.06
Expired	(50)	$	3.00
Forfeited	(305)	$	1.96
Outstanding, December 31, 2015	50	$	1.72

The following table summarizes information about stock options as at December 31, 2015 (number of option shares in thousands):

Range of Prices C$		Options Outstanding				Options Exercisable		
Low	High	Number Outstanding	Weighted-Average Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price (C$)		Number Exercisable	Weighted-Average Exercise Price (C$)	
$ 1.00	$ 1.60	30	1.74	$	1.20	30	$	1.20
1.61	2.50	20	0.29		2.50	20		2.50
$ 1.00	$ 2.50	50	1.16	$	1.72	50	$	1.72

Earnings Per Share – The weighted average number of shares outstanding during the years ended December 31, 2015 and 2014 which was used for purposes of the computation of basic per share data, was 16,008,810 and 16,018,586, respectively. Since the Company incurred a net loss for each of the years ended December 31, 2015 and 2014, no equity instruments were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

Stock-Based Compensation – No stock-based compensation expense was recognized during the years ended December 31, 2014 and 2015, as no options were granted and all options were fully vested at January 1, 2014.

13. Related Party Transactions

During 2014, the Company paid a $0.05 million due diligence fee to a company controlled the Company's Chief Executive Officer in connection with a proposed credit facility.

During 2015, the Company paid approximately $0.34 million in management fees to an entity controlled by the Company's Chief Executive Officer.

14. Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The following table summarizes compensation paid or payable to officers and directors of the Company, including the Board of Directors, the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer:

	December 31, 2015		December 31, 2014	
Salaries, bonuses, benefits and fees	$	837	$	1,070
Severance related to settlement of employment agreements		310		496
Management Fees		340		60
Total compensation	$	1,487	$	1,626

15. Commitments

The Company is committed to the following non-cancellable future payment, principally related to one remaining office lease, at December 31, 2015 (in thousands):

2016	$	39
2017		25
Total	$	64

On April 1, 2015, the sublease of the remaining term of the Company's office lease in Houston, Texas, became effective thus reducing its future committed payments by $0.5 million.

In February 2014, the Company amended its CO_2 Purchase Agreement with Kinder Morgan CO_2 Company, L.P. (Kinder Morgan), which agreement would provide the source of CO_2 for use in tertiary oil recovery projects in the Permian Basin. The contract, as amended, requires the Company to take or pay for the purchase of 27.4 billion cubic feet of CO_2 over a five-year period commencing no later than January 1, 2018. The maximum daily rate to be purchased under the contract is 20 million cubic feet per day during year three and the cost of CO_2 will fluctuate based on the price of oil and transportation tariffs. The Company would be required to construct a pipeline, currently estimated to be a distance of approximately 32 miles, to the pipeline operated by Kinder Morgan. The purchase commitment and obligation to pay, as amended, is cancellable before January 1, 2017, with no termination penalty.

In connection with the sale of certain assets to Kinder Morgan in 2011, the Company agreed to be contingently responsible for up to $5.0 million of future appraisal drilling costs to evaluate helium in certain areas of the St. Johns Dome field ("Drilling Costs"). The obligation was secured in part by $2.5 million placed into escrow at closing of the sale. On September 4, 2015, approximately $1.25 million of the Company's restricted cash was released from escrow by Kinder Morgan. The released funds are included as cash provided by investing activities in the Company's consolidated statement of cash flows for the year ended December 31, 2015 (see Note 5 - Restricted Cash). The remaining sum of approximately $1.25 million was released to the Company in January of 2016 (see Note 22 – Subsequent Events). The remaining obligation of $2.5 million expires in January of 2024. The Company's obligations to fund Drilling Costs are contingent on all permits being issued and all steel being purchased to construct a pipeline to the St. Johns Dome field.

16. Financial Instruments - Commodity Contracts

In March 2014, the Company executed a derivative collar agreement with a crude oil purchaser, Shell Trading Risk Management LLC, for settlements aggregating approximately 72,000 net barrels of crude oil through April 2015 at an average monthly NYMEX settlement price of between approximately $88.00 (put) and $97.50 (call) per barrel.

The Company realized gains of $0.3 million on all derivative agreements for the year ended December 31, 2014, including a gain of $0.3 million in connection with the termination of this collar derivative in October 2014 following the sale of the Crossroads field. Realized gains during 2014 were $0.1 million on the remaining swap derivative, but which had an unrealized estimated fair value loss of $0.039 million at December 31, 2014.

During 2015, the Company settled all outstanding derivative agreements, realizing a loss of $0.1 million. As such, the Company had no derivative contracts in place at December 31, 2015.

17. Fair Value Measurements

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

The Company has determined that the carrying value of its short-term financial assets and liabilities (cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities) approximates fair value at the consolidated balance sheet dates due to the short-term maturity of these instruments.

The fair values of the derivatives are determined by a Level 2 valuation model, where pricing inputs other than quoted prices in an active market are used. These pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and risk-free rate discounting, all of which can be observed or corroborated in the marketplace. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions.

18. Risk Management

Risks Associated with Financial Assets and Liabilities – The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. The future cash flows of financial assets or liabilities may fluctuate due to movements in market prices and the exposure to credit and liquidity risks. Disclosures relating to exposure risk are provided in detail below

Credit Risk

Credit risk is the risk of an unexpected financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, including restricted cash, and receivables. The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian and US banks, principally in overnight money market funds investing in government treasury instruments. The Company's receivables mainly consist of amounts due from sales of its crude oil and natural gas production.

With respect to its crude oil and natural gas production receivables, the Company is the operator of all its property interests and owns the significant majority of the working interest in producing and non-producing properties.

(All amounts in thousands of US dollars unless otherwise indicated)

Receivables related to the sale of crude oil production are with two major reputable marketers and proceeds are collected within approximately 25 days following the month of delivery. The Company produces a limited amount of natural gas which is sold to a reputable purchaser and collections occur within approximately 55 days of the end of any monthly period.

The Company's exposure to credit risk for these consolidated financial instruments was as follows.:

	December 31, 2015	December 31, 2014
Cash	$ 1,257	$ 4,079
Receivables	293	503
Restricted cash	4,273	5,502
Maximum credit risk exposure	$ 5,823	$ 10,084

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. Currently, the Company does not have a credit facility to facilitate the management of liquidity risk. At December 31, 2015, the Company had cash of $1.3 million, excluding restricted cash of $4.3 million, and no outstanding funded indebtedness. The Company believes it can meet its current obligations, but currently has negative cash flows due to declining oil prices and production. The Company is still dependent on raising funds by borrowings, equity issues, or asset sales to finance its ongoing operations, capital expenditures and acquisitions. The contractual maturity of the majority of accounts payable is within three months or less. Management has delayed capital expenditures on certain projects until the oil commodity pricing environment improves and has reduced general and administrative and operating costs during 2015 and subsequent to December 31, 2015. The Company has historically financed its expenditures and working capital requirements through the sale of common stock or, on occasion, through the issuance of short-term debt.

Foreign Exchange Risk

Substantially all of the Company’s expenditures are either denominated in or made with US dollars. As a result, the Company has very limited exposure to foreign exchange risk in relation to drilling commitments and related resource properties on cash flows related to these purchases. The Company has chosen not to enter into any foreign exchange contracts as its Canadian dollar working capital balances are not deemed significant to the consolidated entity.

(All amounts in thousands of US dollars unless otherwise indicated)

Commodity Price Risk

The Company is constantly exposed to fluctuations in the world commodity prices for its products with a corresponding impact to cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. When debt levels are forecast to increase due to capital expenditures exceeding cash flow, the Company may enter into oil and natural gas hedging contracts in order to provide stability of future cash flow. The Company enters derivative financial instruments to manage commodity price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. The Company settled all outstanding derivative agreements during 2015 and had no derivative contracts in place at December 31, 2015.

19. Supplemental Cash Flow Information

The (increase)/decrease in non-cash working capital from continuing operations is comprised of:

	December 31, 2015	December 31, 2014
Receivables	$ 210	$ 935
Other current assets	168	120
Other non current assets	32	76
Accounts payable and accrued liabilities	(550)	(2,742)
Total	$ (140)	$ (1,611)
Relating to:		
Operating activities	$ (140)	$ (1,611)

20. Capital Management Disclosures

The Company attempts to manage its capital to complete its development projects, to adjust to changing market conditions, to maintain flexibility while pursuing objectives, and ultimately to provide returns to shareholders and benefits to other stakeholders. To manage the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or sell assets. The Company's objectives in managing its capital structure are to maintain a flexible financial structure, to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations.

At December 31, 2015 and 2014, total capitalization of the Company is as follows:

	December 31, 2015	December 31, 2014
Accounts payable and accrued liabilities (excluding commodity contract)	$ 701	$ 951
Total Shareholders' Equity	26,810	31,988
Total Capitalization	$ 27,511	$ 32,939
Debt to Capitalization Ratio	3%	3%

The Company manages its capital structure and makes adjustments to it in light of market and economic conditions as well as the risk characteristics of the Company's underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of credit facilities, adjusting capital spending or by undertaking other strategies as deemed appropriate under the specific circumstances.

The Company monitors capital and its financing requirements through an annual budget process and updates to the budget forecast and working capital projections. There were no changes to the Company's capital management policies during the years ended December 31, 2015 and 2014.

21. Private Placement

On April 9, 2015, the Company announced a private placement of up to US $5.5 million at a price of C$0.05 per Share. The intended use of proceeds is for operating expenses and general working capital. The completion of the private placement is subject to approval of the TSX Venture Exchange (see Note 22 – Subsequent Events).

22. Subsequent Events

Restricted Cash – On January 11, 2016, the remaining $1.25 million of restricted cash was released from escrow by Kinder Morgan (see Note 5 – Restricted Cash).

Private Placement – Subsequent to year-end, the Company received US $0.65 million in connection with the above-mentioned private placement (see Note 21 – Private Placement).