TERRACE ENERGY CORP.
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars)

JANUARY 31, 2019 AND 2018

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF TERRACE ENERGY CORP.

Opinion

We have audited the consolidated financial statements of Terrace Energy Corp. (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at January 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $2,291,640 during the year ended January 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Sukhjit Gill.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 29, 2019

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TERRACE ENERGY CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at ended January 31
(Expressed in United States Dollars)

	2019	2018
ASSETS		
Current assets		
Cash	$ 1,765,776	$ 1,421,810
Accounts receivable	3,819	17,281
Prepaids	17,292	62,010
Assets held for sale (Note 5)	4,724,508	4,826,382
Total current assets	6,511,395	6,327,483
Non-current assets		
Property and equipment (Note 6)	-	19,126
Total assets	$ 6,511,395	$ 6,346,609
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities (Notes 11 and 12)	$ 595,692	$ 630,868
Total current liabilities	595,692	630,868
Non-current liabilities		
Convertible notes (Notes 7 and 12)	18,076,882	17,328,649
Total liabilities	18,672,574	17,959,517
Shareholders' deficit		
Capital stock (Note 8)	49,787,045	47,689,739
Convertible notes – equity component (Note 7)	1,875,987	2,003,196
Translation reserve	(1,872,427)	(1,645,699)
Deficit	(61,951,784)	(59,660,144)
Total shareholders' deficit	(12,161,179)	(11,612,908)
Total liabilities and shareholders' deficit	$ 6,511,395	$ 6,346,609

Approved on behalf of the Board:

“William Gibbs”	“William McCartney”
William Gibbs, CEO & Director	William McCartney, Director

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

TERRACE ENERGY CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
As at ended January 31
(Expressed in United States Dollars)

		2019		2018
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative	$	236,643	$	482,158
Depreciation (Note 6)		18,098		35,082
Professional		128,872		91,046
Salaries and benefits (Note 12)		282,911		509,745
Transfer agent and filing fees		31,504		28,159
		(698,028)		(1,146,190)
Other items				
Financing costs (Note 7)		(3,846,254)		(2,991,233)
Foreign exchange gain		1,354,516		918,914
Finder's fee (Note 14)		1,000,000		-
Net loss from continuing operations for the year		(2,189,766)		(3,218,509)
Net loss from discontinued operations for the year (Notes 4 and 5)		(101,874)		(279,315)
Net loss for the year		(2,291,640)		(3,497,824)
Other comprehensive loss				
Translation adjustment		(226,728)		(1,911,146)
Comprehensive loss for the year	$	(2,518,368)	$	(5,408,970)
Basic and diluted loss per share – Continuing (Note 16)	$	(0.03)	$	(0.04)
Basic and diluted loss per share – Discontinued (Note 16)	$	(0.00)	$	(0.00)
Weighted average number of common shares outstanding, basic and diluted		90,232,399		88,484,821

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

TERRACE ENERGY CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
(Expressed in United States Dollars)

	Capital Stock		Convertible Notes – Equity Component	Stock Options Reserve	Translation Reserve	Deficit	Total Shareholders' Deficit
	Shares	Amount					
Balance – January 31, 2017	**88,494,821**	**$ 47,689,739**	**$ 2,003,196**	**$ 153,375**	**$ 265,447**	**$(56,315,695)**	**$ (6,203,938)**
Expiry of options	-	-	-	(153,375)	-	153,375	-
Cumulative translation adjustment	-	-	-	-	(1,911,146)	-	(1,911,146)
Net loss for the year	-	-	-	-	-	(3,497,824)	(3,497,824)
Balance – January 31, 2018	**88,494,821**	**$ 47,689,739**	**$ 2,003,196**	**$ -**	**$ (1,645,699)**	**$(59,660,144)**	**$ (11,612,908)**
Conversion of convertible notes	5,466,000	2,097,306	(127,209)	-	-	-	1,970,097
Cumulative translation adjustment	-	-	-	-	(226,728)	-	(226,728)
Net loss for the year	-	-	-	-		(2,291,640)	(2,291,640)
Balance – January 31, 2019	**93,960,821**	**$ 49,787,045**	**$ 1,875,987**	**$ -**	**$(1,872,427)**	**$(61,951,784)**	**$ (12,161,179)**

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

TERRACE ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended January 31
(Expressed in United States Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (2,189,766)	$ (3,218,509)
Items not involving cash:		
Accretion of convertible notes	3,846,254	2,991,233
Depreciation	18,098	35,082
Unrealized gain on foreign exchange	(1,306,208)	(962,653)
Changes in non-cash working capital items:		
Accounts receivable	13,462	4,733
Prepaids	44,718	34,233
Accounts payable and accrued liabilities	(35,176)	(21,455)
Operating cash flows from continuing operations	391,382	(1,137,336)
Operating cash flows from discontinued operations (Note 4)	-	-
Net cash provided by (used in) operating activities	391,382	(1,137,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Operator's bond	-	25,000
Investing cash flows from continuing operations	-	25,000
Net cash provided by investing activities	-	25,000
Foreign exchange effect on cash	(47,416)	1,360
Change in cash for the year	343,966	(1,110,976)
Cash, beginning of the year	1,421,810	2,532,786
Cash, end of the year	$ 1,765,776	$ 1,421,810

Supplemental cash flow information (Note 15)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Terrace Energy Corp. (the "Company" or "Terrace") was incorporated on July 6, 2006 under the *Business Corporations Act* (British Columbia) and previously named Terrace Resources Inc. The Company is in the business of acquiring, exploring for and developing conventional onshore oil and gas properties in the United States.

The Company's head office is located at 25511 Budde Road, Suite 601, The Woodlands, Texas 77380. The registered and records office is located at Suite 1000 – 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5.

The Company had negative cash flow from its continuing operating activities for the year ended January 31, 2019 and has a limited history of production or profitability and its financial resources will not be sufficient to fund its debt obligations and ongoing activities beyond the near term (see Commitments described in Note 11). The Company has a net loss of $2,291,640 at January 31, 2019 (2018 – $3,497,824). These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company will need to raise additional capital or seek other strategic alternatives to meet its debt obligations and to carry out its future oil and gas acquisition, exploration and development activities. There are no guarantees that the Company will be able to raise such additional capital when needed.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Management believes that the going concern assumption is appropriate for these consolidated financial statements since management continues to seek and evaluate strategic alternatives and financial options to enable the Company to meet its debt obligations and to carry out its future oil and gas acquisition, exploration and development activities. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements, are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Board of Directors approved the audited consolidated financial statements on May 29, 2019.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

The functional currency of the Company is the Canadian dollar ("CAD"), as it is presently reliant upon the Canadian capital markets to fund its activities. The functional currencies of the Company's foreign subsidiaries are the CAD dollar. These consolidated financial statements are presented in the United States dollar ("USD"), as substantially all of the Company's assets and operations are situated in the USA. Assets and liabilities are translated into USD using the exchange rate in effect on the consolidated statement of financial position date, shareholders' deficit accounts are translated using the historical exchange rate, and revenues and expenses are translated at the average rate for the period, which approximates the exchange rate in effect on the transaction date. Exchange gains and losses on translation are included as a separate component in shareholders' deficit as "translation reserve".

2. BASIS OF PRESENTATION (Continued)

Functional and presentation currency (Continued)

Transactions denominated in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate prevailing at the date of the transaction. Non-monetary items that are measured based on historical cost are translated using the exchange rate in effect at the date of the translation.

Foreign currency differences arising on translation are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

Use of judgments and estimates

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from these estimates.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Assets held for sale and discontinued operations

Judgment is required in determining whether an asset meets the criteria for classification as "assets held for sale" in the consolidated statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Judgment is applied in determining whether disposal groups represent a component of the entity, the results of which should be recorded as discontinued operations in the consolidated statements of operations and comprehensive income (loss).

Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement including whether the arrangement is structured through a separate vehicle, in which case, judgment is also required to assess the rights and obligations arising from the legal form of the separate vehicle, terms of the contractual arrangement, and other relevant facts and circumstances. This assessment often requires significant judgment, and a different conclusion on joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. Management has assessed the investment in partnership as a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of judgments and estimates (Continued)

Convertible debentures

In accordance with the substance of the contractual arrangement, convertible debentures are compound financial instruments that are accounted for separately by their components: a financial liability and an equity instrument.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

Functional currency

The determination of the functional currency for the Company and each of its subsidiaries was based on management's judgment of the underlying transactions, events and conditions relevant to each entity.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated financial statements and their tax basis using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

(Expressed in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new accounting standards and amendments

IFRS 9 *Financial Instruments*

On February 1, 2018 the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9"), which replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 provides a revised model for classification and measurement of financial assets, including a new expected credit loss ("ECL") impairment model. The revised model classifies financial assets according to their contractual cash flow characteristics and the business models under which they are held.

As a result of the adoption of IFRS 9, the Company changed its accounting policy for financial instruments retrospectively. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 as there were no changes to the Company's assets or liabilities classification as a result of this new accounting standard.

A comparison of how the Company accounts for financial instruments under IFRS 9 as compared to the previous policy in accordance with IAS 39 is as follows:

	IAS 39	IFRS 9
Financial Assets		
Cash	FVTPL	FVTPL
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible notes	Amortized cost	Amortized cost

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. All intercompany transactions, balances, revenues and expenses are eliminated in full on consolidation.

Name of subsidiary	Place of Incorporation	Percentage ownership
Terrace US Holdings LLC	USA	100%
Terrace Operating LLC	USA	100%
TEC Operating, LLC	USA	100%
Terrace Investment Holdings, Inc.	USA	100%
TEC Olmos, LLC	USA	100%

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets

Recognition and measurement of financial assets
The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Classification of financial assets
The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

(i) Financial assets measured at amortized cost
A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contract\ual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Financial assets measured at fair value through other comprehensive income ("FVTOCI")
A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income.

(iii) Financial assets measured at fair value through profit or loss ("FVTPL")
A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Derecognition of financial assets
The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities

Recognition and measurement of financial liabilities
The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

Classification of financial liabilities
The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

(i) Financial liabilities measured at amortized cost
A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

(ii) Financial liabilities measured at fair value through profit or loss
A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Derecognition of financial liabilities
The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statement of income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Property and equipment

Depletion and depreciation

The calculation of depletion and depreciation of production equipment is based on total capitalized costs less the estimated net realizable value of production equipment and facilities after the proved developed reserves are fully depleted.

Depreciation of other equipment is provided for on a 14% to 20% straight-line basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances, as well as upon their eventual reclassification to producing assets (oil and gas properties).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of goodwill, if any, allocated to the units and then to reduce carrying amounts of other assets in the unit (group of units) on a pro rata basis.

Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in partnership

The Company considers the investment in the partnership a joint venture, and accordingly, accounts for its investment using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to reflect the Company's pro rata share of income or loss of the equity accounted investment. The Company's share of net income or loss is included in the consolidated statements of operations and comprehensive income (loss) as equity income (loss) in partnership, on a stand alone basis or as a component of discontinued operations.

Convertible notes

The liability component of convertible notes is recognized initially at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the convertible note is measured at amortized cost using the effective interest method. The equity component is not remeasured subsequent to initial recognition.

Income taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is included in the consolidated statement of operations in the year in which the change is enacted or substantively enacted. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Capital stock

Proceeds from the issue of units is allocated between common shares and share purchase warrants on a relative fair value basis, based on the fair value of common shares being the market value on the date of announcement of the placement and the value of share purchase warrants, as determined using the Black-Scholes option pricing model.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments.

It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

Share-based payments

The Company grants stock options to directors, officers, employees and consultants. Share-based payments to employees are measured on the grant date at the fair value of the equity instruments issued, using the Black-Scholes option pricing model and are accrued and charged to operations, over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. The offset to the recorded cost is to stock options reserve. Consideration paid for the shares on the exercise of stock options or warrants is credited to capital stock and the applicable amounts of stock options reserve are transferred to capital stock. Charges for options that are forfeited before vesting are reversed from stock options reserve and transferred to deficit. For options that expire or are forfeited after vesting, the recorded value is transferred from the stock options reserve to deficit.

Revenue recognition

Revenue from the sale of oil and gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. Delivery is generally at the time the product enters the pipeline. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

(Expressed in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting standards that will become effective in future periods

The IASB or International Financial Reporting Interpretation Committee have issued pronouncements effective for accounting periods beginning on or after February 1, 2019. Only those that may significantly impact the Company are discussed below:

IFRS 16 *Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

Applicable to the Company's annual period beginning February 1, 2019. The Company has determined the adoption of this new standard will not have a material impact on its consolidated financial statements.

4. DISCONTINUED OPERATIONS

The Company has determined that it is in its best interest to pursue divestiture of its partnership interest in Blackbrush Terrace LP ("BTLP") (Note 5). Consequently, the Company has classified its partnership interest in the BTLP as an asset held for sale. The financial performance of the partnership for the current and comparative periods have been presented separately as discontinued operations in the consolidated statements of operations and comprehensive loss and cash flows.

The reported net loss for the year ended January 31 from the discontinued operations is comprised of the following:

	2019	2018
Equity loss in partnership	$ (101,874)	$ (279,315)
Net loss from discontinued operations, net of tax	$ (101,874)	$ (279,315)

The reported cash flows from the discontinued operations for the year ended January 31 are as follows:

	2019	2018
Net loss from discontinued operations, net of tax	$ (101,874)	$ (279,315)
Equity loss	$ 101,874	$ 279,315
Operating cash flows from discontinued operations	$ -	$ -

(Expressed in United States Dollars)

5. ASSETS HELD FOR SALE

The Company and its partner, BlackBrush Oil & Gas, LP ("BlackBrush") organized a special purpose limited partnership, the BlackBrush Terrace LP ("BTLP"), to acquire a 50% operated working interest (the "WI") in certain oil and gas leases covering approximately 147,000 gross mineral acres in Maverick County, Texas, USA (the "Maverick County Project") from SWEPI LP ("Shell Oil"). The acreage to be acquired includes potential reserves in the Eagle Ford Shale, Buda Limestone and several other intervals of Cretaceous age formations including the newly emerging Pearsall Shale Trend, which have been proven productive on a regional basis. The agreement allows BTLP to secure the WI through a combination of cash payments, which have been made, and drilling obligations.

During the year ended January 31, 2016, the Company sought and came to an agreement with BlackBrush wherein to preserve capital, the Company would not contribute its share of costs to drill and complete additional wells. As a result, the Company's 50% ownership interest in the BTLP was reduced to approximately 38% at October 31, 2017 and further reduced to approximately 30% at January 31, 2018. In accordance with the provisions of the BTLP agreement, the Company is not entitled to any revenue and expense allocations or distribution of revenue proceeds from such additional wells.

As at January 31, 2019, the Company is still in discussions with a potential buyer for the interest in BTLP and accordingly the interest in BTLP is classified as an asset held for sale.

The carrying value of $4,724,508 at January 31, 2019 (2018 - $4,826,382), which includes $24,483,125 in advances and capital contributions and represent the Company's share of costs to organize, acquire and fund certain agreed-upon exploration and evaluation activities to date plus the Company's share of the cumulative net loss of the BTLP of $19,758,617 for the year ended January 31, 2019 (2018 - $19,656,743). Revenues and expenses attributable to the sole risk operations conducted by BlackBrush totaling a loss of $101,874 for the year ended January 31, 2019 (2018 - $279,315) are excluded from income and allocated to the partner before allocations of income to the partners in accordance with their ownership percentages.

During the year ended January 31, 2018, management made the decision to sell its investment in BTLP, which is currently being marketed for sale (Note 4). The financial performance of BTLP for the current and comparative periods have been presented separately as discontinued operations in the consolidated statements of operations and comprehensive loss and cash flows.

Summary of financial information of the BTLP

As at January 31,	**2019**	**2018**
Assets		
Cash	$ 220,335	$ 1,341,441
Other current assets	890,159	1,072,710
Property and equipment	28,533,591	34,141,558
	$ 29,644,085	$ 36,555,709
Liabilities		
Current liabilities	$ 468,268	$ 1,459,745
Decommissioning obligations	107,510	159,776
	$ 575,778	$ 1,619,521

(Expressed in United States Dollars)

5. ASSETS HELD FOR SALE (Continued)

For the year ended January 31,		2019		2018
Revenue	$	3,285,210	$	4,133,674
Direct operating costs				
Production and operating		1,564,641		1,184,135
Depreciation and depletion		381,380		4,338,838
Operating loss		1,339,189		(1,389,299)
Other expenses		78,798		90,601
Accretion		21,975		19,054
Impairment		43,923		11,529,004
Income (loss) before income taxes	$	1,194,493	$	(13,027,958)
Net loss and comprehensive loss for the year	$	1,194,493	$	(13,027,958)

The BTLP has a fiscal year-end of December 31. Adjustments for material transactions between December 31, 2018 and January 31, 2019 have been made to adjust for the non-coterminous year-ends.

6. PROPERTY AND EQUIPMENT

Cost		**Other Equipment**		**Leaseholds**		**Total**
Balance – January 31, 2017	**$**	**141,263**	**$**	**120,868**	**$**	**262,131**
Effect of changes in foreign exchange rates		-		9,532		9,532
Balance – January 31, 2018 and 2019	**$**	**141,263**	**$**	**130,400**	**$**	**271,663**
Accumulated depreciation and depletion						
Balance – January 31, 2017	**$**	**141,263**	**$**	**71,604**	**$**	**212,867**
Charge for the year		-		35,082		35,082
Effect of changes in foreign exchange rates		-		4,588		4,588
Balance – January 31, 2018	**$**	**141,263**	**$**	**111,274**	**$**	**252,537**
Charge for the year		-		18,098		18,098
Effect of changes in foreign exchange rates		-		1,028		1,028
Balance – January 31, 2019	**$**	**141,263**	**$**	**130,400**	**$**	**271,663**
Net book value						
Balance – January 31, 2018	**$**	**-**	**$**	**19,126**	**$**	**19,126**
Balance – January 31, 2019	**$**	**-**	**$**	**-**	**$**	**-**

(Expressed in United States Dollars)

7. CONVERTIBLE NOTES

During the year ended January 31, 2017, the Company proposed a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (British Columbia) pursuant to which all of 8% unsecured notes of the Company due April 2, 2018 with a conversion price of CAD $2.00 (the "Existing Notes") would be exchanged for new convertible secured notes of the Company (the "New Notes") due April 2, 2021 (the "Maturity Date"), which are governed by a new trust indenture.

While the Existing Notes were unsecured, the New Notes are a secured obligation of the Company, guaranteed by a general security agreement against all of the Company's assets, which includes the shares of the two United States holding companies, Terrace US Holdings LLC and Terrace Investment Holdings, Inc., but not the assets of these subsidiaries. Additionally, the New Notes are interest-free, but subject to a maturity bonus equal to 5% of the aggregate total principal amount of the New Notes payable on the Maturity Date (the "Maturity Bonus"). If the New Notes are redeemed in accordance with their terms at any time within 180 days prior to the Maturity Date, one-half of the Maturity Bonus will be payable.

Carrying value of secured assets at January 31, 2019:

Cash	$	1,765,776
Accounts receivable		3,819
Prepaids		17,292
	$	1,786,887

The Maturity Bonus will be payable, at the Company's election, in cash or through the issuance of common shares of the Company at a price equal to the volume weighted average of the Company's common shares on its principal stock exchange for the ten trading days prior to any such issuance.

The Company has the right to convert all or part of the New Notes into common shares at any time if the market price of the common shares on the Exchange trades at CAD $0.70 or higher for a period of 30 consecutive trading days. Holders of the New Notes may convert all or part of the outstanding principal amount of their convertible notes at a conversion price of CAD $0.50 at any time during the term of the convertible notes.

At January 31, 2019, CAD $35,532,000 of notes were outstanding and convertible into 71,064,000 shares (January 31, 2018 - CAD $38,265,000).

The following table reconciles the carrying amount of the New Notes from January 31, 2017 through January 31, 2019:

	Liability	Equity	Total
Balance, January 31, 2017	**$ 13,382,619**	**$ 2,003,196**	**$ 15,385,815**
Accretion of discount	2,991,233	-	2,991,233
Effect of changes in foreign exchange rates	954,797	-	954,797
Balance, January 31, 2018	**$ 17,328,649**	**$ 2,003,196**	**$ 19,331,845**
Conversion of notes	(1,970,097)	(127,209)	(2,097,306)
Accretion of discount	3,846,254	-	3,846,254
Effect of changes in foreign exchange rates	(1,127,924)	-	(1,127,924)
Balance, January 31, 2019	**$ 18,076,882**	**$ 1,875,987**	**$ 19,952,869**

8. CAPITAL STOCK

The Company has unlimited authorized common shares without par value. At January 31, 2019, the Company has 93,960,821 (2018 – 88,494,821) shares outstanding.

Share issues

During the year ended January 31, 2019, the Company issued 5,466,000 common shares on the conversion of CAD $2,733,000 convertible notes.

During the year ended January 31, 2018, the Company did not issue any common shares.

Restricted share units

The Company has a restricted share unit plan (the "RSU Plan") that permits the issuance of an aggregate 3,682,182 RSUs to eligible participants, as described in the RSU Plan. RSUs do not confer on the holder any right to vote at a meeting of the shareholders of the Company. Common shares reserved for issuance under outstanding RSUs must be included in the calculation of common shares remaining available for reservation pursuant to options granted under the 10% rolling option plan. The number of common shares reserved for issuance, together with any other compensation arrangements, to any one person in any twelve-month period will not exceed 5% of the issued and outstanding common shares. The number of common shares reserved for issuance together with any other compensation arrangements granted to all technical consultants will not exceed 2% of the issued and outstanding common shares. The number of RSUs granted to any one person cannot exceed 5% of the issued and outstanding common shares.

As at January 31, 2019, the Company has 350,000 (2018 – 700,000) RSUs outstanding with a grant date fair value of CAD $2,742,208 based on the stock prices at the time of grant. Each RSU, upon vesting, gives the holder the right to receive one common share. Unless otherwise approved by the Company's Board of Directors, all of the RSUs will vest upon the occurrence of a "change of control transaction", as such term is defined in the RSU award agreements. In the absence of a change of control transaction or other acceleration of vesting by the Company's Board of Directors, unvested RSUs will expire ten years from the date of grant. Vested RSUs will be settled, at the election of the Company, by way of: (i) issuance of common shares from treasury; (ii) payment to the RSU holder of an amount of cash equal to the market price of the common shares on the vesting date; or (iii) any combination thereof.

The Company recognizes compensation expense for the expected number of RSUs expected to vest over the vesting period. As of January 31, 2019 and 2018, there are no contemplated transactions that would give rise to vesting; therefore, no compensation expense has been recognized.

Stock options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with Exchange requirements, grant to directors, officers, employees and technical consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. The number of common shares reserved for issuance pursuant to options granted to all technical consultants will not exceed 2% of the issued and outstanding common shares. The number of options granted to any one person cannot exceed 5% of the issued and outstanding common shares. Such options may be exercisable for a period of up to ten years from the date of grant. Vesting terms vary and will be determined at the time of grant by the Board of Directors.

Outstanding stock options and warrants

At January 31, 2019 and 2018 there were no options or warrants outstanding.

9. FINANCIAL INSTRUMENTS

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Fair value

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash and accounts receivable. The credit risk associated with cash is mitigated since the cash is held at major financial institutions with high credit ratings. At January 31, 2019 and 2018, the Company has no trade receivables, and therefore is no longer exposed to credit risk from these financial assets.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

(ii) Foreign currency risk

Foreign currency risk is the risk that the future cash flow of financial instruments will fluctuate as a result of changes in foreign exchange rates. The Company's functional currency is CAD and its subsidiaries' functional currencies are CAD and USD. Transactions relating to its oil and gas properties are in USD. Therefore, the Company is impacted by changes in the exchange rate between Canadian and US dollars.

(Expressed in United States Dollars)

9. FINANCIAL INSTRUMENTS (Continued)

Market risk (Continued)

(ii) Foreign currency risk (Continued)

The assets and liabilities with exposure to foreign currency risk are those that are denominated in a different currency than the currency determined to be the functional currency of the respective entity as of the end of the period. The following assets and liabilities represent the Company's exposure to foreign currency risk:

	2019	2018
Cash	$ 1,765,558	$ 1,398,455
Accounts receivable	-	11,687
Accounts payable and accrued liabilities	(518,573)	(570,854)
Net	$ 1,192,985	$ 839,288

Based on the above net exposure, a 5% change in the Canadian/US exchange rate would impact the Company's net loss and comprehensive loss) by approximately $59,649 (2018 - $41,964).

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages liquidity risk through maintaining sufficient cash on hand to meet its obligations as they become due. As at January 31, 2019, the Company had cash of $1,765,776 (2018 - $1,421,810), accounts receivable of $3,819 (2018 - $17,281), and current liabilities of $595,692 (2018 - $630,868). Current liabilities of $95,692 are due within three months of January 31, 2019. The remaining $500,000 balance relates to a contingent liability recorded for provision of the asserted liquidated damages (Note 11).

The Convertible Notes of the Company (Note 7) represent a long-term debt obligation that will mature in 2021. The Company's business approach is focused on acquiring and managing assets to meet this obligation. There are; however, no assurances that the Company's plans will produce sufficient net revenues to pay out this debt.

The Company through its investment in BTLP, owns varying interests in oil and gas properties subject to joint operating agreements and other agreements, which provide, among other things, that the Company make advance payments from time to time to fund its share of estimated exploration and evaluation costs in order to maintain its interests. The Company has determined that its working capital and available resources combined with future cash flow from operations will not be sufficient to fund its share of the agreed-upon estimated costs of proposed future development activities. As a consequence, the Company will have to secure new sources of capital, which is not assured, to maintain its interests in such proposed development and there is no assurance such capital could be obtained.

(Expressed in United States Dollars)

9. FINANCIAL INSTRUMENTS (Continued)

Classification of financial instruments

The following table sets forth the fair value of the Company's financial assets and financial liabilities within the fair value hierarchy as at January 31, 2019.

		Level 1		Level 2		Level 3
Cash	$	1,765,776	$	-	$	-
Convertible notes		(270,329)		-		-
	$	1,495,447	$	-	$	-

The following table sets forth the fair value of the Company's financial assets and financial liabilities within the fair value hierarchy as at January 31, 2018.

		Level 1		Level 2		Level 3
Cash	$	1,421,810	$	-	$	-
Convertible notes		(129,802)		-		-
	$	1,292,008	$	-	$	-

10. CAPITAL DISCLOSURES

The Company considers its capital under management to be shareholders' deficit and convertible notes. The Company's capital management objectives are to ensure the Company continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board of Directors does not establish quantitative criteria for management, but rather relies on management expertise to sustain future development. Management will adjust the capital structure as necessary to achieve the objectives.

The Company's capital management strategy has not changed during the year ended January 31, 2019.

11. COMMITMENTS AND CONTINGENCIES

The Company has a commitment to make monthly rental payments pursuant to an office rental agreement in Vancouver, British Columbia expiring in June 2020. The lease requires total annual payments of CAD $58,875 per year.

Total rent expense net of sublease payments included in the consolidated statements of operations and comprehensive loss for the year ended January 31, 2019 amounted to $34,737 (2018 - $75,166). At January 31, 2019, the Company had convertible notes outstanding in the face amount of CAD $35,532,000 that do not pay interest and are due April 2, 2021 (Note 7).

As of October 31, 2018, the BTLP partnership has spent approximately $73 million towards its $104 million drilling obligation to Shell Oil. Subsequent to January 31, 2019, BTLP has renegotiated its remaining obligations to extend the time to complete its drilling obligations to December 31, 2020 (Note 5).

During March 2019, BTLP and its lessee amended the Farm-out Agreement with Shell. Under the amendment, BTLP is required to make at least $24 million in minimum expenditures on the lease during 2019 and spend the remaining commitment by December 31, 2020 or pay liquidated damages to the lessee in an amount not to exceed $5 million for 2019 and $3 million for 2020. The amended Farm-out Agreement includes specifications for certain expenditures. BTLP is also required to transfer 50% ownership interest in certain facilities including its pipeline facilities.

(Expressed in United States Dollars)

11. COMMITMENTS AND CONTINGENCIES (Continued)

During April 2015, the Company entered into an agreement, through a wholly owned subsidiary, to earn a 75% working interest and a 52.5% net revenue interest, as to the Olmos formation only, in certain leases covering initially 640 gross mineral acres in LaSalle County, Texas. Under the terms of this agreement, the Company was required to commence drilling a well (paying 100% of the cost) on this acreage by late September 2015 or pay liquidated damages of $500,000. Due to the severe drop in commodity prices, the Company declared the agreement to be in a state of *force majeure* in accordance with the applicable terms of the agreement, effectively placing its obligations on hold until market conditions improve sufficiently to allow for economic development of the acreage. The farmor disputed this declaration and filed suit to enforce the liquidated damages clause of the agreement. In June 2016 the court upheld the farmor's motion for summary judgment against the wholly owned subsidiary. Accordingly the Company has recorded a provision in the amount of the asserted liquidated damages of $500,000. The Company will continue to vigorously defend its position. The Company believes this suit to be without merit and has appealed the court ruling including a counter-claim against the farmor for damages relating to breach of contract. The Company has filed affidavits with the courts as to the financial condition of the subsidiary which blocks any further attempts at collection on the judgement. The appeal and counter-claim is still pending in the court system.

12. RELATED PARTY TRANSACTIONS

Key management personnel include executive officers and directors of the Company. Compensation of the Company's key management personnel is comprised of the following:

	Year ended January 31, 2019	2018
Short-term compensation	$ 290,871	$ 672,329
Recoveries from consulting and management services revenue	(69,856)	(321,398)
	$ 221,015	$ 350,931

During the year ended January 31, 2017, management and staff voluntarily modified their employment contracts to reduce salaries and eliminate key long-term employment benefits. The Company established a third party consulting practice to cover salaries for technical personnel. At January 31, 2019, these changes resulted in recoveries of $69,856 (2018 - $321,398).

At January 31, 2019, convertible notes held by key management personnel and their close family members totalled CAD $3,230,000 (2018 - CAD $3,230,000). No interest was paid on these convertible notes in 2019 and 2018.

At January 31, 2019, the accounts payable owing to key management personnel totalled $4,070 (2018 - $nil).

(Expressed in United States Dollars)

13. SEGMENTED INFORMATION

The Company has one operating segment, which is the acquisition, exploration and development of oil and gas properties. Geographic segmentation of the Company's non-current assets is as follows:

	January 31, 2019		
	USA	**Canada**	**Total**
Assets held for sale	$ 4,724,508	$ -	$ 4,724,508
	$ 4,724,508	$ -	$ 4,724,508

	January 31, 2018		
	USA	**Canada**	**Total**
Property and equipment	$ -	$ 19,126	$ 19,126
Assets held for sale	4,826,382	-	4,826,382
	$ 4,826,382	$ 19,126	$ 4,845,508

Exploration and development activities and producing properties are located in the US and oil and gas revenues are derived from US operations and included in discontinued operations.

14. FINDER'S FEE

During the year ended January 31, 2019, the Company identified and evaluated an opportunity to acquire a group of oil and gas assets in the United States. The Company collected a finder's fee of $1,000,000 from an unrelated third party for the rights to use the evaluation data prepared by the Company. That third party successfuly acquired this opportunity and paid the finder's fee to the Company.

15. SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended January 31, 2019, the Company the Company issued 5,466,000 common shares on the conversion of CAD $2,733,000 convertible notes.

During the year ended January 31, 2018, the Company transferred $153,375 from stock option reserves to deficit on the expiration of options.

16. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following:

	Year ended January 31,	
	2019	**2018**
Net loss from continuing operations	$ (2,189,766)	$ (3,218,509)
Net loss from discontinued operations	(101,874)	(279,315)
Basic weighted average number of common shares outstanding	90,232,399	88,484,821
Effect of dilutive securities	-	-
Diluted weighted average number of common shares outstanding	90,232,399	88,484,821
Continuing Operations:		
Basic and diluted loss per share	$(0.03)	$(0.04)
Discontinued Operations		
Basic and diluted loss per share	$(0.00)	$(0.00)

(Expressed in United States Dollars)

17. INCOME TAXES

a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2018 - 26.08%) to income (loss) before income taxes. The reasons for the differences are as follows:

	2019	2018
Loss before income taxes	$ (2,291,640)	$ (3,497,824)
Statutory income tax rate	27.00%	26.08%
Expected income tax recovery	(618,743)	(912,233)
Items not deductible for tax purposes	391,231	527,681
Differences between Canadian and foreign tax rates	28,115	(116,582)
Effect of change in tax rates	8,029,396	5,031,412
Temporary differences	(2,306)	1,603
Impact of foreign exchange on tax assets and liabilities	(17,362)	(115,178)
Changes in unrecognized deferred income tax assets	(7,810,331)	(4,416,703)
	$ -	$ -

b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generate taxable income to recognize deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2019	2018
Non-capital losses	$ 67,118,830	$ 67,773,956
Share issue costs	187,190	284,649
Other	-	180,901
	$ 67,306,020	$ 68,239,506

As at January 31, 2019, the Company's unused tax losses have the following expiry years:

2031 and before	$ 179,395
2032	101,694
2033	421,861
2034	9,748,139
2035	16,345,680
2036	10,917,465
2037	26,504,351
2038	2,052,086
2039	848,159
	$ 67,118,830