TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited and Expressed in United States Dollars)

FOR THE THREE MONTHS ENDED APRIL 30, 2018 AND 2017

TERRACE ENERGY CORP.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

June 25, 2018

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
UNAUDITED – PREPARED BY MANAGEMENT
(Expressed in United States Dollars)

As at		**April 30, 2018**		**January 31, 2018**
ASSETS				
Current assets				
Cash	$	1,158,383	$	1,421,810
Accounts receivable		6,553		17,281
Prepaids		64,654		62,010
Assets held for sale (Note 5)		4,789,213		4,826,382
Total current assets		6,018,803		6,327,483
Non-current assets				
Property and equipment (Note 6)		9,489		19,126
Total assets	$	6,028,292	$	6,346,609
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Current liabilities				
Accounts payable and accrued liabilities (Note13)	$	603,257	$	630,868
Total current liabilities		603,257		630,868
Non-current liabilities				
Convertible notes (Notes 7 and 13)		17,425,864		17,328,649
Total liabilities		18,029,121		17,959,517
Shareholders' deficit				
Capital stock (Note 8)		47,689,739		47,689,739
Convertible notes – equity component (Note 7)		2,003,196		2,003,196
Translation reserve (Note 2)		(1,939,227)		(1,645,699)
Deficit		(59,754,537)		(59,660,144)
Total shareholders' deficit		(12,000,829)		(11,612,908)
Total liabilities and shareholders' deficit	$	6,028,292	$	6,346,609

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

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
UNAUDITED – PREPARED BY MANAGEMENT
(Expressed in United States Dollars)
For the three months ended April 30

		2018		2017
EXPENSES				
Administrative	$	93,652	$	108,892
Depreciation		8,883		13,112
Financing (Note 9)		835,540		655,150
Foreign exchange gain		(1,030,982)		(770,520)
Professional		26,057		5,173
Salaries and benefits (Note 13)		116,678		115,474
Transfer agent and filing fees		7,395		9,791
		57,223		136,872
Net income (loss) from continuing operations		(57,223)		(136,872)
Net loss from discontinued operations (Note 4)		(37,170)		(16,885)
Net loss for the period		(94,393)		(153,757)
Other comprehensive loss				
Translation adjustment		(1,939,227)		(169,573)
Comprehensive loss for the period	$	(2,033,620)	$	(323,330)
Basic and diluted loss per share	$	(0.00)	$	(0.00)
Weighted average number of common shares outstanding		88,494,821		88,494,821

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

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
UNAUDITED – PREPARED BY MANAGEMENT
(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)**
Cumulative translation adjustment	-	-	-	-	(169,573)	-	(169,573)
Net loss for the period	-	-	-	-	-	(153,757)	(153,757)
Balance – April 30, 2017	**88,494,821**	**$ 47,689,739**	**$ 2,003,196**	**$ 153,375**	**$ 95,874**	**$(56,469,452)**	**$ (6,527,268)**
Balance – January 31, 2018	**88,494,821**	**$ 47,689,739**	**$ 2,003,196**	**$ -**	**$(1,645,699)**	**$(59,660,144)**	**$ 11612,908)**
Cumulative translation adjustment	-	-	-	-	(293,528)	-	(293,528)
Net loss for the period	-	-	-	-		(94,393)	(94,393)
Balance – April 30, 2018	**88,494,821**	**$ 47,689,739**	**$ 2,003,196**	**$ -**	**$(1,939,227)**	**$(59,754,537)**	**$ (12,000,829)**

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

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
UNAUDITED – PREPARED BY MANAGEMENT
For the three months ended April 30
(Expressed in United States Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (57,223)	$ (136,872)
Items not involving cash:		
Accretion of convertible notes	835,540	655,150
Depreciation and depletion	11,331	13,112
Unrealized gain on foreign exchange	(1,034,128)	(801,076)
Changes in non-cash working capital items:		
Accounts receivable	10,728	(29,407)
Prepaids	(2,644)	26,319
Accounts payable and accrued liabilities	(27,611)	(29,395)
Operating cash flows from continuing operations	(265,007)	(302,169)
Operating cash flows from discontinued operations (Note 4)	-	-
Net cash used in operating activities	(264,007)	(302,169)
Foreign exchange effect on cash	580	(12,360)
Change in cash for the period	(263,427)	(314,529)
Cash, beginning of the period	1,421,427	2,532,786
Cash, end of the period	$ 1,158,383	$ 2,218,257

The accompanying notes are an integral part of these condensed consolidated interim 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 25700 1-45-N, Suite 4067, The Woodlands. Texas, 77386. 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 three months ended April 30, 2018 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 12). 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The accounting policies used in the preparation of these condensed consolidated interim financial statements are the same as those applied in the Company's most recent consolidated annual financial statements for the year ended January 31, 2018. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated annual financial statements for the year ended January 31, 2018. The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of February 1, 2018.

The Board of Directors approved the unaudited condensed consolidated interim financial statements on June 25, 2018.

Basis of measurement

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

2. BASIS OF PRESENTATION (Continued)

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 condensed consolidated interim 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 the presentation currency using the exchange rate in effect on the condensed consolidated interim statement of financial position date, shareholders' deficit accounts are translated into the presentation currency 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".

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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim statements of operations and comprehensive income (loss).

3, SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of judgments and estimates (Continued)

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.

Convertible debenture

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.

.

Principles of consolidation

The condensed consolidated interim 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 Inc.	USA	100%
Terrace Operating LLC	USA	100%
TEC Operating, LLC	USA	100%
Terrace Investment Holdings, Inc.	USA	100%
TEC Olmos, LLC	USA	100%

(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, 2018. 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 not assessed the impact of this pronouncement.

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 condensed consolidated interim statements of operations and comprehensive income (loss) and cash flows.

The reported net loss from the discontinued operations is comprised of the following:

	2018	2017
Equity loss in partnership	$ (37,170)	$ (16,885)
Net loss from discontinued operations, net of tax	$ (37,170)	$ (16,885)

The reported cash flows from the discontinued operations for the years ended April 30 are as follows:

	2018	2017
Net loss from discontinued operations, net of tax	$ (37,170)	$ (16,885)
Operating cash flows from discontinued operations	$ 37,170	$ 16,885
Net cash from operating activities	$ -	$ -

5. INVESTMENT IN PARTNERSHIP

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. The material terms of the Farmout Agreement between the BTLP and Shell Oil are as follows:

1. the BTLP has made an up-front cash payment of $13 million;

2. the BTLP has the option, but not the obligation, to earn the assignment of the WI in all of the leases by spending an aggregate $104 million ($52 million net to Terrace), including $52 million ($26 million net to Terrace) representing Shell Oil's share of costs (the "Carry Payment") on certain qualified expenditures as development of the property progresses over time;

3. upon completion of each well drilled under this agreement, the BTLP may request an assignment of 50% of Shell Oil's interest in such well;

4. upon making the carry payment in full, the BTLP may request an assignment of 50% of Shell Oil's interest in all of the subject leases and shall have the option, but not the obligation, to participate in a 50% working interest in each subsequent well by paying its proportionate share of all development costs for such well unless Shell Oil elects to convert its working interest in a producing formation into a net profits interest; and

5. Shell Oil has the right, but not the obligation, to assume operatorship of any formation in which production has been established at any time within two years after the later of (i) the carry payment being made in full and subsequent assignment of 50% of Shell Oil's interest in the subject leases or (ii) establishment of commercial production from a given formation.

In addition to the previously funded $13 million up-front payment, as of April 30, 2018, the BTLP has spent approximately $68 million towards its drilling obligation to Shell Oil. Under the terms of its agreement with Shell Oil, the BTLP is obligated to fund the remaining balance of the Carry Payment and drilling obligation (approximately $36 million) in 2018. If the Carry Payment is not satisfied in full by the end of 2018, then the BTLP will be required to pay $4 million in liquidated damages and the Farmout Agreement will be terminated. The BTLP and Shell Oil are in discussions to extend this obligation; however, there is no assurance that such an extension will be granted.

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 April 30, 2017 and further reduced to approximately 30% at April 30, 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.

The carrying value of $4,789,213 at January 31, 2018 (2017 - $5,105,697), 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 $19,656,743 (2017 - $19,377,428). Revenues and expenses attributable to the sole risk operations conducted by BlackBrush totaling a loss of $218,436 for the three months ended April 30, 2018 (2017 - $12,507) are excluded from income and allocated to the partner before allocations of income to the partners in accordance with their ownership percentages. The Company's share of the BTLP loss recognized during the year ended April 30, 2018 was $37,170 (2017 - $16,885).

(Expressed in United States Dollars)

5. INVESTMENT IN PARTNERSHIP (Continued)

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 condensed consolidated interim statements of operations and comprehensive income (loss) and cash flows.

Summary of financial information of the BTLP

As at April 30,	**2018**	**2017**
Assets		
Cash	$ 1,741,556	$ 238,580
Other current assets	624,210	257,680
Property and equipment	22,334,907	19,156,904
Liabilities		
Current liabilities	$ 847,875	$ 978,359
Decommissioning obligations	159,776	337,548
	$ 1,007,652	$ 1,315,907

For the quarter ended April 30,	**2018**	**2017**
Revenue	$ 978,204	$ 486,348
Direct operating costs		
Production and operating	320,514	155,737
Depreciation and depletion	404,154	316,392
Operating income (loss)	253,536	14,219
Other expenses	35,100	(26,736)
Net loss and comprehensive loss for the period	$ 218,436	$ (12,517)

(Expressed in United States Dollars)

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	-	12,476	12,476
Balance – January 31, 2018	**$ 141,263**	**$ 133,344**	**$ 274,607**
Effect of changes in foreign exchange rates	**-**	**3,520**	**3,520**
Balance – April 2018	**$ 141,263**	**$ 136,864**	**$ 278,127**
Accumulated depreciation and depletion			
Balance – January 31, 2017	**141,263**	**71,604**	**212,867**
Charge for 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 year	**-**	**11,331**	**11,331**
Effect of changes in foreign exchange rates	**-**	**4,770**	**4,770**
Balance – April 2018	**$ 141,263**	**$ 127,375**	**$ 268,638**
Net book value			
Balance – January 31, 2018	**$ -**	**$ 19,126**	**$ 19,126**
Balance – April 30, 2018	**$ -**	**$ 9,489**	**$ 9,489**

7. CONVERTIBLE NOTES

During 2013, the Company completed two non-brokered private placements of convertible, unsecured promissory notes in the aggregate principal amount of CAD $40,000,000. The original notes were due April 2, 2018, paid interest of 8% per annum and were convertible into 20,000,000 common shares of the Company at CAD $2.00 per share. In October 2014, the Company obtained approval for an arrangement under the *Business Corporations Act* (British Columbia) pursuant to which all of the issued and outstanding notes were exchanged for new 8% convertible unsecured notes of the Company due April 2, 2018 and governed by a trust indenture (the "Existing Notes"). The Existing Notes contained substantially similar economic terms as the original notes, including the same interest rate, maturity date and conversion price; however, they were listed for trading on the Exchange.

In response to the current market conditions and the financial position of the Company, the quarterly interest payment due January 31, 2016 was not paid. Under the trust indenture in place at January 31, 2016, an event of default would only occur if the Company failed to make an interest payment within the 15 day cure period provided for in the indenture, in respect of two consecutive interest payment dates. As such, the Company was not in default as of January 31, 2016 for failing to make the January 31, 2016 payment. Subsequent to January 31, 2016, the Company proposed a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (British Columbia) pursuant to which all of 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.

(Expressed in United States Dollars)

7. CONVERTIBLE NOTES (Continued)

During May 2016, the Arrangement was approved and the holders of the Existing Notes received $1,000 in principal amount of New Notes for each $1,000 principal amount of Existing Notes held by such noteholder. Interest owing to noteholders on the Existing Notes to the date of such exchange totaling CAD $1,619,326 was forgiven at the time of exchange. While the Existing Notes are 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 April 30, 2018:

Cash	$	1,158,383
Accounts receivable		6,553
Prepaids		64,654
Property and equipment		9,489
	$	1,239,079

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 April 30, 2018, CAD $38,265,000 of notes were outstanding and convertible into 76,530,000 shares (2017 - CAD $38,265,000).

The following table reconciles the carrying amount of the New Notes from January 31, 2017 through April 30, 2018:

	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**
Accretion of discount	**835,540**	**-**	**835,540**
Effect of changes in foreign exchange rates	**(738,325)**	**-**	**(738,325)**
Balance, April 30, 2018	**$ 17,425,864**	**$ 2,003,196**	**$ 19,429,060**

8. CAPITAL STOCK

The Company has unlimited authorized common shares without par value. At April 30, 2018, the Company has 88,494,821 (January 31, 2018 - 88,494,821) shares outstanding.

Share issues

During the quarters ended April 30, 2018 and 2017, 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 of 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 April 30, 2018, the Company has 650,000 (January 31, 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 April 30, 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 April 30, 2018 and January 31, 2018, there were no options and warrants outstanding.

9. FINANCING EXPENSES

	Three months ended April 30,	
	2018	**2017**
Continuing Operations:		
Accretion of convertible notes	$ 835,440	$ 655,150
Total financing expense from continuing operations	$ 845,440	$ 655,150

10. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

- Cash – as FVTPL; and
- Accounts payable and accrued liabilities and convertible notes – as other financial liabilities.

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

Fair value

The carrying values of cash 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. To mitigate this risk, the Company regularly reviews the collectability of accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. The Company has no balances past due or impaired.

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.

(Expressed in United States Dollars)

10. FINANCIAL INSTRUMENTS (Continued)

The Company was exposed to interest rate risk on its credit facility whereby interest was based on LIBOR and its convertible notes, which had a fixed interest rate. During fiscal 2017, the Credit Facility was settled and the convertible notes were exchanged to interest-free notes, accordingly, the Company is no longer exposed to significant interest rate 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.

The assets and liabilities with exposure to foreign currency risk are those that are denominated in a different currency than the currency determined to 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:

	April 30, 2018 (USD)	January 31, 2018 (USD)
Cash	$ 1,147,066	$ 1,398,455
Accounts receivable	-	11,687
Accounts payable and accrued liabilities	(530,357)	(570,854)
Net	$ 616,709	$ 839,288

Based on the above net exposure as at, a 5% change in the Canadian/US exchange rate would impact the Company's net loss and comprehensive loss by approximately $30,835 (January 31, 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 April 30, 2018, the Company had cash of $1,158,383 (January 31, 2018 - $1,421,810), accounts receivable of $6,553 (2018 - $17,281), and current liabilities of $603,257 (2018 - $630,868). Current liabilities of $103,257 are due within three months of April 30, 2018. The remaining $500,000 balance relates to a contingent liability recorded for provision of the asserted liquidated damages (see Note 12).

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. The Company has 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

(Expressed in United States Dollars)

10. FINANCIAL INSTRUMENTS (Continued)

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.

Classification of financial instruments

The following table sets forth the Company's financial assets and financial liabilities measured at fair value by level within the fair value hierarchy as at April 30, 2018.

	Level 1	Level 2	Level 3
Cash	$ 1,158,383	$ -	$ -
Convertible notes	(59,621)	-	-
	$ 1,098,762	$ -	$ -

The following table sets forth the Company's financial assets and financial liabilities measured at fair value by level 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	$ -	$ -

11. 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 from January 31, 2018. As at April 30, 2018, the Company is not subject to any externally imposed capital requirements.

12. COMMITMENTS AND CONTINGENCIES

The Company has a commitment to make monthly rental payments pursuant to an office rental agreement in Vancouver, British Columbia, which commenced July 1, 2013 for a term of seven years. The lease requires total annual payments of CAD $72,511 in years three, four and five, and CAD $76,198 in years six and seven. In December 2015, the Company entered into a sublease of the office space commencing February 1, 2016 through the remaining term of the lease for CAD $58,992 per year.

Total rent expense net of sublease payments included in the condensed consolidated interim statements of operations and comprehensive income (loss) for the three months ended April 30, 2018 amounted to $8,774 (2017 - $17,718).

At April 30, 2018, the Company had convertible notes outstanding in the face amount of CAD $38,265,000 that do not pay interest and are due April 2, 2021 (Note 7).

(Expressed in United States Dollars)

12. 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, included in accounts payable and accrued liabilities. The Company will continue to vigorously defend its position. The Company 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 process is still pending in the court system.

13. 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:

	Three months ended April 30, 2018	2017
Short-term compensation	$ 157,031	$ 186,553
Recoveries from consulting and management services revenue	(73,363)	(87,904)
	$ 83,668	$ 98,649

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 April 30, 2018, these changes resulted in recoveries of $73,363 (2017 – 87,904).

Included in accounts payable and accrued liabilities as at April 30, 2018 are amounts payable to key management personnel totalling $13,334 (January 31, 2018 - $Nil).

At April 30, 2018, convertible notes held by key management personnel and their close family members totalled CAD $3,230,000 (January 31, 2018 - CAD $3,230,000). No interest was paid on these convertible notes in 2018 and 2017.

All related party amounts included in accounts payable and accrued liabilities are due on demand.

(Expressed in United States Dollars)

14. 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:

		April 30, 2018				
		USA		**Canada**		**Total**
Property and equipment	$	-	$	9,489	$	9,489
Assets held for sale		4,826,382		-		4,826,382
	$	4,826,382	$	9,489	$	4,835,872

		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