MANAGEMENT'S REPORT

To the Shareholders of Manitok Energy Inc.

The annual consolidated financial statements of Manitok Energy Inc. as at and for the years ended December 31, 2016 and December 31, 2015 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for ensuring that the financial and operating information presented in the annual report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by the shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the consolidated financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

(signed) *"Massimo M. Geremia"*

Massimo M. Geremia,
President and Chief Executive Officer

(signed) *"Robert G. Dion"*

Robert G. Dion,
Vice President, Finance & Chief Financial Officer

May 1, 2017
Calgary, Canada

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Manitok Energy Inc.

We have audited the accompanying consolidated financial statements of Manitok Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Manitok Energy Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) in the consolidated financial statements which indicates that Manitok Energy Inc. has material uncertainties relating to its ability to meet its capital commitments and there is significant uncertainty surrounding future compliance with the working capital covenant. These conditions, along with other matters as set forth in Note 2(a) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Manitok Energy Inc.'s ability to continue as a going concern.

(signed) *"KPMG LLP"*

Chartered Professional Accountants

May 1, 2017
Calgary, Canada

MANITOK ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(expressed in thousands of Canadian dollars)

As at December 31,	**2016**	2015
ASSETS		
Current assets:		
Marketable securities (note 6)	**109**	-
Accounts receivable (note 23)	**9,788**	18,026
Deposits and prepaid expenses	**797**	881
Fair value of financial instruments (note 23)	**-**	14,172
	10,694	33,079
Non-current assets:		
Fair value of financial instruments (note 23)	**-**	6,479
Exploration and evaluation (note 7)	**27,405**	36,351
Property and equipment (note 8)	**214,766**	128,796
	242,171	171,626
Total assets	**252,865**	204,705
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	**19,768**	9,956
Provisions for building lease obligations	**1,321**	-
Credit facilities (note 11)	**33,083**	62,398
Fair value of financial instruments (note 23)	**2,876**	-
Deferred premium on financial instruments (note 23)	**-**	1,400
	57,048	73,754
Non-current liabilities:		
Senior secured notes (note 12)	**18,138**	-
Long-term financial obligations (note 13)	**14,856**	14,948
Deferred premium on financial instruments (note 23)	**-**	1,396
Flow-through share premium	**542**	1,539
Provisions for building lease obligations	**1,047**	-
Decommissioning obligations (note 14)	**86,997**	27,718
Deferred income taxes (note 15)	**-**	4,810
	121,580	50,411
Total liabilities	**178,628**	124,165
SHAREHOLDERS' EQUITY		
Share capital (note 16)	**143,849**	127,765
Warrants (note 17)	**1,288**	-
Contributed surplus	**7,764**	6,745
Deficit	**(78,664)**	(53,970)
	74,237	80,540
Going concern (note 2a)		
Commitments (note 25)		
Subsequent event (note 26)		
	252,865	204,705

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

APPROVED BY THE BOARD

(signed) *"Bruno P. Geremia"*
Bruno P. Geremia CA, Director

(signed) "Gregory E. Peterson"
Gregory E. Peterson LL.B., Director

MANITOK ENERGY INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
(expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31,	**2016**	2015
REVENUE		
Petroleum and natural gas	**47,280**	56,210
Processing revenue	**823**	773
Royalty expenses	**(13,020)**	(14,586)
Net revenue from petroleum and natural gas sales	**35,083**	42,397
Realized gain on financial instruments	**20,639**	23,844
Unrealized loss on financial instruments	**(20,731)**	(910)
	34,991	65,331
EXPENSES		
Operating	**22,384**	20,753
Transportation and marketing	**2,233**	3,531
Administrative, net of recoveries (note 20)	**7,182**	7,272
Provision for building lease obligation	**1,130**	-
Depletion and depreciation (note 8)	**19,957**	27,382
Finance (note 21)	**7,837**	7,236
Impairment (notes 7 and 8)	**18,495**	30,602
Change in fair value of marketable securities (note 6)	**123**	-
(Gain) loss on divestitures and acquisitions (notes 9 and 10)	**(12,010)**	3,675
	67,331	100,451
LOSS BEFORE INCOME TAXES	**(32,340)**	(35,120)
Deferred income tax recovery (note 15)	**(7,646)**	(7,925)
NET LOSS AND COMPREHENSIVE LOSS	**(24,694)**	(27,195)
Net loss per common share (note 19)		
Basic and diluted	**(0.13)**	(0.36)

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

MANITOK ENERGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in thousands of Canadian dollars, except for share information)

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
As at December 31, 2014	**105,701**	**-**	**5,407**	**(26,775)**	**84,333**
Net loss and comprehensive loss	-	-	-	(27,195)	(27,195)
Share issuances (note 16)	23,498	-	-	-	23,498
Share issue costs, net of tax (note 16)	(1,434)	-	69	-	(1,365)
Stock-based compensation expensed (note 20)	-	-	638	-	638
Stock-based compensation capitalized (note 20)	-	-	631	-	631
As at December 31, 2015	**127,765**	**-**	**6,745**	**(53,970)**	**80,540**
Net loss and comprehensive loss	-		-	(24,694)	(24,694)
Share issuances (note 16)	11,336		-	-	11,336
Share issue costs, net of tax (note 16)	(1,021)		4	-	(1,017)
Corporate acquisition (note 9)	5,769	518	-	-	6,287
Warrants issued with senior secured notes, net of tax (note 17)	-	885	-	-	885
Warrant issue costs (note 17)	-	(115)	-	-	(115)
Stock-based compensation expensed (note 20)	-	-	612	-	612
Stock-based compensation capitalized (note 20)	-	-	403	-	403
As at December 31, 2016	**143,849**	**1,288**	**7,764**	**(78,664)**	**74,237**

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

MANITOK ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in thousands of Canadian dollars)

Years ended December 31,	**2016**	2015
Cash provided by (used in):		
OPERATING ACTIVITIES:		
Net loss	**(24,694)**	(27,195)
Adjustments for items not affecting operating cash:		
Deferred income tax recovery	**(7,646)**	(7,925)
Depletion and depreciation	**19,957**	27,382
Impairment	**18,495**	30,602
Stock-based compensation (note 20)	**612**	638
Finance (note 21)	**7,837**	7,236
Provision for building lease obligations	**1,188**	-
Unrealized loss on financial instruments	**20,731**	910
Change in fair value of marketable securities	**123**	-
(Gain) loss on asset divestitures and acquisitions	**(12,010)**	3,675
Acquisition-related expenses (note 21)	**(952)**	(1,892)
Interest paid (note 21)	**(6,053)**	(4,933)
Decommissioning expenditures (note 14)	**(545)**	(1,064)
Changes in non-cash operating working capital (note 24)	**2,720**	69
	19,763	27,503
FINANCING ACTIVITIES:		
Increase (decrease) in credit facilities	**(29,315)**	9,140
Proceeds from senior secured notes (note 12)	**16,707**	-
Senior secured notes issuance costs (note 12)	**(2,091)**	-
Increase (decrease) in long-term financial obligations (note 13)	**(92)**	12,448
Proceeds from share issuances	**11,999**	25,191
Share issue costs	**(1,392)**	(1,870)
Changes in non-cash financing working capital (note 24)	**7,491**	(7,491)
	3,307	37,418
INVESTING ACTIVITIES:		
Acquisitions (note 9)	**(14,849)**	(61,549)
Corporate acquisition (note 9)	**5,020**	-
Divestitures (note 10)	**(173)**	37,049
Exploration and evaluation asset expenditures	**(13,437)**	(4,678)
Property and equipment expenditures	**(6,834)**	(11,419)
Changes in non-cash investing working capital (note 24)	**7,203**	(24,324)
	(23,070)	(64,921)
NET CHANGE IN CASH	**-**	-
CASH, BEGINNING OF YEAR	**-**	-
CASH, END OF YEAR	**-**	-
Cash interest paid (note 20)	**6,053**	4,960

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

1. REPORTING ENTITY AND NATURE OF OPERATIONS

Manitok Energy Inc. ("**Manitok**" or the "**Corporation**") is domiciled and incorporated in Canada. The Corporation is engaged in the exploration for, and the development, production and acquisition of petroleum and natural gas reserves in western Canada and currently all of the Corporation's activities are in Alberta. Manitok's financial year end is December 31st and the Corporation's office is located at Suite 700, 444 – 7th Avenue S.W., Calgary, Alberta, Canada T2P 0X8. Manitok common shares ("**Manitok Shares**") are listed on the TSX Venture Exchange ("**TSX-V**") under the symbol "**MEI**".

2. BASIS OF PREPARATION AND GOING CONCERN

a) Going Concern

These annual audited consolidated financial statements ("**Consolidated Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") on a going concern basis, which asserts that the Corporation has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business. Based on the Corporation's budgeted cash flow from operating activities at current forward strip crude oil and natural gas prices, and available credit facilities, which are demand facilities and a portion of which is non-conforming and requires repayment, the Corporation is unable to meet its commitments as outlined in note 25. The Corporation is subject to a working capital covenant of 1 to 1 pursuant to its credit facilities. As at December 31, 2016 the working capital covenant was 1 to 1. There is minimal cushion on this covenant as at December 31, 2016 and uncertainty surrounding future compliance (see notes 11, 12 and 13). As a result, Manitok is in the process of identifying and pursuing alternative debt arrangements, joint venture arrangements, property acquisitions or divestitures, corporate mergers and acquisitions and other recapitalization opportunities to satisfy its obligations, but there is no assurance that the Corporation will be able to access the various financing alternatives. Should the Corporation fail to meet its obligations in note 25, the outstanding capital commitment shortfall amount and all debt obligations may become due and payable to the counterparties immediately and/or loss of lands. These circumstances result in a material uncertainty surrounding the Corporation's ability to continue as a going concern and create significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly the appropriateness of the use of accounting principles applicable to a going concern.

The Consolidated Financial Statements do not reflect the adjustments to the carrying amounts of the Corporation's assets, liabilities, revenues, expenses and balance sheet classifications that would be necessary if the going concern assumption is not appropriate. Such adjustments could be material.

b) Statement of Compliance

These Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("**IASB**") as at and for the years ended December 31, 2016 and December 31, 2015.

These Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on May 1, 2017.

c) Basis of Measurement and Principles of Consolidation

These Consolidated Financial Statements are prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair values are discussed in note 5. The Consolidated Financial Statements include the accounts of Manitok and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated.

d) Functional and Presentation Currency

These Consolidated Financial Statements are expressed in Canadian dollars, which is the Corporation and its subsidiary's functional currency.

e) Use of Estimates and Judgement

The preparation of the Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and revenue and expenses during the reporting period. Actual results may differ from these estimates.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in these Consolidated Financial Statements:

(i) Identification of CGUs

Manitok's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. The recoverability of property and equipment and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. The determination of these CGUs was based on management's judgment in regards to similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risk and materiality.

(ii) Identification of impairment indicators

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The key estimates the Corporation applies in determining an acceptable range of recoverable amounts includes information from both external sources (such as a negative downturn in commodity prices, and significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in estimated recoverable reserves, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Corporation's assets in future periods.

(iii) Identification of exploration and evaluation assets

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

Key sources of estimation uncertainty:

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in these Consolidated Financial Statements.

(i) Reserves

The amounts recorded for the depletion of property and equipment, the provision for decommissioning obligations and the amounts used in the impairment calculations are based on estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the financial statements of future periods could be material.

(ii) Impairment of non-financial assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future net revenue taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned

assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversals will affect income or loss.

(iii) Decommissioning obligations

The decommissioning obligations amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments, future abandonment costs and regulatory legislation, all of which are subject to uncertainty. Actual results could differ as a result of using estimates.

(iv) Share-based compensation

Share-based compensation expense involves the estimate of the fair value of stock options and warrants at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the security subject to the option. The charge is measured using the Black-Scholes option pricing model, which could be replaced by a pricing model producing different results.

(v) Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired and determining value for assets not included in a reserve report such as facilities or pipelines.

(vi) Fair value of financial instruments

The fair value of financial instruments where active market quotes are not available is estimated using the Corporation's assessment of available market inputs. These estimates may vary from the actual prices received upon settlement of the financial instruments.

(vii) Income taxes

Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income (loss) in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

(viii) Accrual method of accounting

Manitok follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, operating, transportation and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these Consolidated Financial Statements.

a) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and collection is reasonably assured and are recorded gross of transportation charges incurred by the Corporation. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

b) Cash and Cash Equivalents

Cash may consist of cash on hand, deposits and term investments held with a financial institution, with an original maturity of three months or less.

c) Jointly Owned Assets

Many of the Corporation's oil and natural gas activities involve jointly owned assets. The Consolidated Financial Statements include Manitok's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

d) Exploration and Evaluation Assets

Exploration and Evaluation ("**E&E**") costs incurred prior to acquiring the legal right to explore in an area are charged directly to income (loss). Costs incurred after the legal right to explore is obtained, but before technical feasibility and commercial viability of the area has been established, are capitalized as E&E assets. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs and other directly attributable administrative costs.

Once an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment. The carrying value, net of any impairment, is then reclassified to property and equipment as a Developed and Producing ("**D&P**") asset. If an area is determined not to be technically feasible and commercially viable, or the Corporation discontinues its exploration and evaluation activity, any unrecoverable costs are charged to income (loss). Assets classified as E&E are not subject to depletion and depreciation until they are reclassified to petroleum and natural gas properties and equipment. Exchanges that involve only E&E assets are accounted for at carrying value.

The Corporation may from time to time enter into farm-out arrangements while in the E&E phase. The Corporation's policy for farm-outs is the Corporation does not record any expenditures made by the farmee on its behalf and the Corporation does not recognize a gain or loss on the farm-out arrangement, but rather designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received is credited against the costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposition.

e) Property and Equipment

Property and equipment, which include oil and gas D&P assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. D&P assets include mineral lease acquisitions, geological and geophysical, drilling and completion, facility and production equipment, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Gains and losses on disposals of properties are determined by comparing the proceeds to the net carrying value of the properties and are recognized in income (loss).

Exchanges of D&P assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in income or loss.

f) Depletion and depreciation

D&P and E&E assets, if producing, are separated into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

(i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;

(ii) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and

(iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

g) Impairment of *non-financial assets*

(i) Developed and Producing Assets

D&P assets are aggregated into CGUs for the purposes of impairment testing. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost to sell or its value in use.

When the carrying value exceeds the recoverable amount an impairment loss is recognized in income (loss).

Reversals of impairments are recognized when events or circumstances that triggered the original impairment have changed. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

(ii) Exploration and Evaluation Assets

E&E assets are assessed for impairment at the CGU level. Impairment tests are carried out when E&E assets are transferred to D&P assets once an area is determined to be technically feasible and commercially viable, and any time that circumstances arise which could indicate a potential impairment, including land lease expiries. An impairment is recognized if the total carrying value of E&E assets exceed the aggregate impairment cushions calculated for Manitok's CGUs and is applied to reduce the carrying amount of E&E assets on a pro-rata basis. If E&E assets are subject to impairment testing in the same period in which there is an indication of impairment in one of Manitok's CGUs, that CGU is first tested for impairment and any resulting impairment loss is recorded prior to conducting impairment tests on E&E assets.

h) Leased Assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's Consolidated Statements of Financial Position. Payments made under operating leases are recognized in income or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

i) Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Corporation will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect of the time value of money is significant.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for onerous contracts is recognized when the expected benefit to be derived by the Corporation for a contract are lower than the unavoidable costs under the contract. The provision is measured at the lower of the expected cost of forfeiting the contract and the expected net cost of continuing with the contract.

j) Decommissioning Obligations

The Corporation's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Manitok recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk-free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in income (loss). Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

k) Business Combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net income (loss). Transaction costs associated with a business combination are expensed as incurred.

l) Subsidiaries

Subsidiaries are entities consolidated by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control occurs until the date that control ceases.

m) Share-Based Payments

The Corporation accounts for its share-based compensation plan using the fair value method, which is estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options and warrants granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options or warrants, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Forfeitures of stock options and warrants are estimated on the grant date and are adjusted to reflect the actual number of options that vest. In the event that vested stock options or warrants expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within

administrative expenses in income or loss. A portion of share-based compensation expense directly attributable to the exploration and development of the Corporation's assets are capitalized.

n) Finance Expenses

Finance expenses include interest expense on borrowings, standby fees on the unutilized credit facility, letter of credit fees issued against the credit facility, renewal fees of the credit facility, accretion of the discount on decommissioning obligations, accretion of fees on the senior secured notes and the implicit interest rate on the long-term financial obligations.

o) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of accounts receivable, accounts payable and accrued liabilities, credit facilities, senior secured notes and long term financial obligations. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest method.

Manitok's marketable securities are measured at fair value with changes in fair value recognized in income (loss).

(ii) Derivative financial instruments

Derivative financial instruments may be used by the Corporation to manage economic exposure to market risks relating to commodity prices, exchange rates and interest rates. Manitok's policy is not to utilize derivative financial instruments for speculative purposes. The Corporation does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, all financial derivatives are classified at fair value through income or loss and are recorded on the Consolidated Financial Statements at fair value. Transaction costs are recognized in income or loss when incurred.

The fair value of commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward benchmark commodity prices as at the date of the Consolidated Financial Statements, using the remaining contracted oil and natural gas volumes and a risk-free interest rate based on published government rates. The fair value of options is based on option models that use published information with respect to volatility, prices and interest rates.

The Corporation accounts for any forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the Consolidated Financial Statements. Settlements on physical sales contracts are recognized in petroleum and natural gas sales in income (loss).

(iii) Share capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares, net of tax, are recognized as a deduction from equity.

p) Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognized in

income or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

q) Deferred Income Taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

r) Flow-Through Shares

The Corporation may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value of the flow-through shares issued and the value that would have been received for common shares as at the date of announcement of the flow-through share issuance is initially recognized as a liability on the Consolidated Financial Statements. When the expenditures are incurred, the liability is reduced, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Corporation as a result of the renunciation and the difference is recognized as a deferred tax expense.

s) Per Share Amounts

Basic per share amounts are computed by dividing income (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised and common shares issued.

t) Change in Presentation

Certain comparative information has been re-classified to conform to current presentation.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Corporation on January 1, 2018. Manitok is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. As the Corporation does not currently apply hedge accounting it anticipates that this standard will not have a material impact on its financial statements.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Manitok on January 1, 2019 and the Corporation is currently evaluating the impact of the standard on Manitok's financial statements.

5. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Petroleum and equipment and exploration and evaluation assets

The fair value of petroleum and equipment recognized in a business combination, is based on market values. The Market value of petroleum and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests included in property and equipment and intangible exploration and evaluation assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports and available third party land sales data. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Accounts receivable, deposits, accounts payable and accrued liabilities and credit facilities

The fair value of accounts receivable, deposits, accounts payable and accrued liabilities and the credit facilities are estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2016 and December 31, 2015, the fair value of these balances approximated their carrying value due to their short term to maturity. The Corporation's credit facilities bear interest at a floating rate and the margins charged by the lender are indicative of current credit spreads. Accordingly, the fair value approximates the carrying value.

(iii) Senior Secured Notes

The fair value of the Senior Secured Notes is measured at level 1 of the fair value hierarchy as it trades on the TSX-V. The Senior Secured Notes have a fair value of $20.4 million based on December 31, 2016 trading volumes.

(iv) Long-term financial obligations

The fair value of the long-term financial obligations at December 31, 2016, based on a discounted cash flow model assuming a 14.3% effective interest rate, is $14.9 million (December 31, 2015 – $14.9 million).

(v) Derivatives:

The fair value of commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward benchmark commodity prices as at the date of the Consolidated Financial Statements, using the remaining contracted oil and natural gas volumes and a risk-free interest rate based on published government rates. The fair value of options is based on option models that use published information with respect to volatility, prices and interest rates.

(vi) Share-based payments:

The fair value of share-based payments is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price based on weighted average historical daily traded volatility, weighted average expected life of the instruments based on

historical experience and general option holder behavior, expected dividend yield and the risk-free interest rate based on government bonds.

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

6. MARKETABLE SECURITIES

The Corporation holds 1,450,000 common shares of a public company trading on the TSX-V that were acquired as part of the Raimount Arrangement as disclosed in note 9. The shares were valued at $0.075 per share for a total fair value of approximately $0.1 million at December 31, 2016. The change in fair value from the date of acquisition being an unrealized loss of $0.1 million has been included in net loss. The fair value measurement of marketable securities is classified as level 1 of the fair value hierarchy in note 5.

7. EXPLORATION AND EVALUATION ASSETS

The components of the Corporation's Exploration and Evaluation ("**E&E**") assets are as follows:

($000)	**Total**
As at December 31, 2014	26,759
Additions[1]	12,124
Acquisition	4,973
Impairment	(7,505)
As at December 31, 2015	**36,351**
Additions[1]	14,264
Acquisition[2]	2,110
Dispositions	(445)
Transfer to property and equipment	(15,197)
Impairment	(9,678)
As at December 31, 2016	**27,405**

(1) Includes non-cash items such as capitalized stock-based compensation and decommissioning obligations.
(2) In March 2016, the Corporation completed an acquisition in southeast Alberta for $4.5 million as disclosed in note 9 and $0.6 million was allocated to E&E assets. In August 2016, the Corporation completed the corporate acquisition of Raimount Energy Inc. for $6.3 million as disclosed in note 9 and $0.5 million was allocated to E&E assets. In October 2016, the Corporation completed an acquisition for $14.9 million as disclosed in note 9 and $1.0 million was allocated to E&E assets.

E&E assets consist of the Corporation's exploration projects which are pending the determination of economic quantities of proven reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period. Manitok capitalized cash and non-cash administrative costs directly attributable to E&E additions of $1.9 million in the year ended December 31, 2016 (2015 – $2.4 million).

Impairment

As at December 31, 2016, Manitok performed an impairment analysis due to upcoming land expiries, and determined the carrying value of certain E&E assets were higher than the estimated fair value less costs to sell based on a valuation of the assets. For the year ended December 31, 2016, Manitok recognized a total impairment charge of $9.7 million (2015 – $7.5 million).

8. PROPERTY AND EQUIPMENT

The components of the Corporation's Property and Equipment are as follows:

($000)	P&NG	Corporate	Total
Cost:			
As at December 31, 2014	208,622	1,230	209,852
Additions[(1)]	11,492	178	11,670
Asset acquisition (note 9)	63,857	-	63,857
Asset divestitures (note 10)	(68,316)	-	(68,316)
Change in decommissioning obligations	12,588	-	12,588
As at December 31, 2015	228,243	1,408	229,651
Additions[(1)]	6,922	955	7,877
Asset acquisitions (note 9)	60,034	-	60,034
Asset divestitures (note 10)	(2,140)	-	(2,140)
Transfer from E&E assets	15,197	-	15,197
Change in decommissioning obligations	31,744	-	31,744
As at December 31, 2016	**340,000**	**2,363**	**342,363**
Accumulated depletion and depreciation and impairment:			
As at December 31, 2014	(70,196)	(692)	(70,888)
Asset divestitures (note 10)	20,492	-	20,492
Depletion and depreciation expense	(26,960)	(422)	(27,382)
Impairment	(23,077)	-	(23,077)
As at December 31, 2015	(99,741)	(1,114)	(100,855)
Asset divestitures (note 10)	2,032	-	2,032
Depletion and depreciation expense	(19,692)	(265)	(19,957)
Impairment	(8,817)	-	(8,817)
As at December 31, 2016	**(126,218)**	**(1,379)**	**(127,597)**
Carrying Amounts:			
As at December 31, 2015	128,502	294	128,796
As at December 31, 2016	**213,782**	**984**	**214,766**

(1) Includes non-cash capitalized stock-based compensation.

At December 31, 2016, estimated future development costs of $109.4 million (2015 – $60.8 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's depletion and depreciation calculation. Manitok capitalized cash and non-cash administrative costs directly attributable to P&NG properties and equipment of $0.7 million in the year ended December 31, 2016 (2015 – $1.4 million).

Impairment

As at December 31, 2016, the Corporation evaluated its D&P assets for indicators of any potential impairment or related reversal. As a result of this assessment, Manitok conducted an impairment test in one CGU as a result of negative technical reserve revisions. No indicators of impairment were identified in the Corporation's other CGUs. As a result of the impairment test conducted, Manitok recognized an impairment charge to its D&P assets of $8.8 million (December 2015 - $23.1 million net of reversals). The fair value measurement of the Company's P&NG Properties and Equipment is designated level 3 on the fair value hierarchy in note 5.

In estimating the recoverable amount of the CGU of $82.2 million, the net present value of the before tax cash flows from proved plus probable oil and gas reserves of the CGU at December 31, 2016 was based on reserves estimated by an independent reserves evaluator.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

- Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being restated.
- Crude oil and natural gas prices – Forward price estimates of the crude oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

The estimated recoverable amounts were based on a fair value calculation less costs to sell using before tax discount rates of between 10% and 20%, and the following forward commodity price estimates:

	WTI Oil ($US/bbl)	Canadian Light Sweet ($CAD/bbl)	AECO gas ($CAD/mmbtu)	$US/$CAD
2017	55.00	65.58	3.44	0.780
2018	65.00	74.51	3.27	0.820
2019	70.00	78.24	3.22	0.850
2020	71.40	80.64	3.91	0.850
2021	72.83	82.25	4.00	0.850
2022	74.28	83.90	4.10	0.850
2023	75.77	85.58	4.19	0.850
2024	77.29	87.29	4.29	0.850
2025	78.83	89.03	4.40	0.850
2026	80.41	90.81	4.50	0.850
2027	82.02	92.63	4.61	0.850
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	

(1) Product sale prices will reflect these reference prices with further adjustments for product quality differentials and transportation to point of sale.

The results of the impairment tests are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development capital expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges.

9. ACQUISITIONS

The following transactions have been accounted for as business combinations pursuant to IFRS 3, using the acquisition method of accounting, whereby the net assets acquired and the liabilities assumed are recorded at fair value. The revenue and net income for the post-acquisition period of the acquisitions listed below are included in the Consolidated Financial Statements. The accounting for these acquisitions will be finalized after all actual results have been obtained and the final fair values of the assets and liabilities have been determined. Accordingly, the acquisition accounting may be subject to change.

2016 Corporate Acquisitions

In August 2016, the Corporation completed an arrangement agreement with Raimount Energy Inc. ("**Raimount**") and 1977746 Alberta Inc. ("**Acquireco**"), being a wholly owned subsidiary of the Corporation ("**Arrangement Agreement**"). Under the terms of the Arrangement Agreement, Manitok acquired, indirectly through Acquireco, all of the issued and outstanding common shares of Raimount by way of a plan of arrangement under the *Business Corporations Act* (Alberta) ("**Raimount Arrangement**"). Each Raimount shareholder received six (6) Manitok Shares and one and one-half (1.5) Manitok Share purchase warrants ("**Raimount Arrangement Warrants**") in exchange for each Raimount common share held. As a result of the Raimount Arrangement, Manitok issued 41,207,196 Manitok Shares and 10,301,837 Raimount Arrangement Warrants which have an exercise price of $0.30 per Manitok Share for a term of two years.

A total of $0.4 million in acquisition-related expenses, which relate primarily to professional fees have been charged to finance expenses in the Consolidated Financial Statements.

The Raimount Arrangement has contributed revenues of $0.2 million and operating income of $0.1 million since the closing date and had the Raimount Arrangement closed on January 1, 2016, the estimated unaudited contributed revenues would have been $0.4 million and the estimated unaudited contributed operating loss would have been $0.2 million for the period ended December 31, 2016. The pro-forma information is not necessarily indicative of the actual results that would have been achieved had the business combination closed on January 1, 2016.

Fair value of net assets acquired:	**($000)**
Cash	5,020
Net working capital deficit	(720)
Building lease obligation	(242)
Marketable securities	232
Exploration and evaluation assets	499
Property and equipment	1,537
Deferred income tax asset	672
Decommissioning obligations	(711)
Total net assets acquired	**6,287**

Consideration:	
Manitok Shares (note 16)	5,769
Raimount Arrangement Warrants (note 17)	518
Total consideration	**6,287**

The fair value of P&NG assets have been estimated based on natural gas reserves using discount rates of 15% to 18%. The decommissioning obligations have been estimated using a credit adjusted discount rate of 10% and the deferred income tax asset relates primarily to the temporary differences for non-capital losses and the decommissioning obligations.

2016 Asset Acquisitions

a) In February 2016, the Corporation closed a non-cash asset exchange agreement, in which Manitok divested of a 19.9% non-operated working interest in a gas plant in a non-core area, where it has no current throughput volumes or value in its reserve report, in exchange for a 17.5% average working interest in petroleum and natural gas assets, along with an average 45% working interest in associated undeveloped land in the Stolberg area of

Alberta. The estimated fair value was determined to be $7.0 million and was based on the fair value of the acquired assets. The pro forma information from January 1, 2016 to the closing date are not material.

Fair value of net assets acquired:	($000)
Property and equipment	7,128
Decommissioning obligations	(102)
Total net assets acquired	**7,026**

Consideration:	
Non-operated working interest in a gas plant	**7,026**

The fair value of the P&NG assets has been estimated based on available third party land sale data for the undeveloped land and a third party reserve report using discount rates of 10%. The decommissioning obligations have been estimated using a credit adjusted discount rate of 10%.

b) In March 2016, the Corporation closed an acquisition of petroleum and natural gas assets in the Carseland area of southeast Alberta ("**Carseland Acquisition**") for total cash consideration of $4.5 million. The consideration paid by Manitok for the Carseland Acquisition was financed with the Corporation's credit facility. The pro forma information from January 1, 2016 to the closing date are not material.

Fair value of net assets acquired:	($000)
Exploration and evaluation assets	560
Property and equipment	4,246
Decommissioning obligations	(317)
Total net assets acquired	**4,489**

Consideration:	
Cash	**4,489**

The fair value of E&E assets has been estimated based on available third party land sale data, while P&NG assets have been estimated based on natural gas reserves using discount rates of 15% and replacement values of the gas plant and pipelines. The decommissioning obligations have been estimated using a credit adjusted discount rate of 10%.

c) In October 2016, the Corporation closed an acquisition of petroleum and natural gas assets in the Willesden Green ("**WG**") area of west central Alberta ("**WG Acquisition**") for total cash consideration of $14.9 million before post-closing adjustments. The consideration paid by Manitok for the WG Acquisition was financed with the issuance of the Senior Secured Notes as disclosed in note 12.

A total of $0.5 million in acquisition-related expenses, which relate primarily to professional fees have been charged to finance expenses on the Consolidated Financial Statements.

The WG Acquisition has contributed revenues of $2.6 million and operating income of $1.0 million since the close date and had the WG Acquisition closed on January 1, 2016, estimated contributed revenues would have been an additional $14.9 million for a total of $17.5 million and estimated contributed operating income would have been $4.0 million for the year ended December 31, 2016. The pro-forma information is not necessarily indicative of the actual results that would have been achieved had the business combination closed on January 1, 2016.

Fair value of net assets acquired:	**($000)**
Exploration and evaluation assets	1,051
Property and equipment	47,123
Decommissioning obligations	(26,139)
Gain on acquisition	(5,238)
Deferred income tax liability	(1,937)
Total net assets acquired	**14,860**

Consideration:	
Cash	10,360
Senior Secured Notes (note 12)	4,500
Total consideration	**14,860**

The fair value of E&E assets has been estimated based on available third party land sale data, while P&NG assets have been estimated based on anticipated natural gas reserves using discount rates of 15%. The decommissioning obligations have been estimated using a credit adjusted discount rate of 10%.

2015 Asset Acquisitions

In June 2015, the Corporation closed an acquisition of petroleum and natural gas assets in the Wayne area of southeast Alberta ("**Wayne Acquisition**"), with an effective date of April 1, 2015, for total cash consideration of $61.1 million. The consideration paid by Manitok for the Wayne Acquisition was financed with the June 2015 equity financing as disclosed in note 16, asset divestitures as disclosed in note 10 and long-term financial obligations as disclosed in note 13.

A total of $1.9 million in acquisition-related expenses, which relate primarily to professional fees have been charged to finance expenses on the Consolidated Financial Statements.

The Wayne Acquisition has contributed revenues of $10.8 million and operating income of $2.4 million since June 12, 2015 and had the Wayne Acquisition closed on January 1, 2015, estimated contributed revenues would have been an additional $12.1 million for a total of $22.9 million and estimated contributed operating income would have been $8.5 million for the year ended December 31, 2015. The pro-forma information is not necessarily indicative of the actual results that would have been achieved had the business combination closed on January 1, 2015.

Fair value of net assets acquired:	($000)
Exploration and evaluation assets	4,973
Property and equipment	63,402
Decommissioning obligations	(7,271)
Total net assets acquired	**61,104**

Consideration:	
Cash	**61,104**

The fair value of E&E assets had been estimated based on available third party land sale data, while P&NG assets have been estimated based on a third party reserve report using discount rates of 12% to 18%. The decommissioning obligations have been estimated using a credit adjusted discount rate of 10%.

In addition, the Corporation closed a minor acquisition in the Carseland area for $0.3 million in June 2015.

10. ASSET DIVESTITURES

2016 Asset Divestitures

As disclosed in note 9, the Corporation closed a non-cash asset exchange agreement in February 2016, in which Manitok divested of a 19.9% non-operated working interest in a gas plant in a non-core area, where it has no current throughput volumes or value in its reserve report, in exchange for a 17.5% average working interest in petroleum and natural gas assets, along with an average 45% working interest in associated undeveloped land in the Stolberg area of Alberta. The estimated fair value was determined to be $7.0 million and was based on the fair value of the

acquired assets. The net book value of the divested non-core asset was $0.1 million and as a result Manitok recorded a gain of $6.9 million for the year ended December 31, 2016.

2015 Asset Divestitures

In May 2015, the Corporation entered into an asset swap arrangement, in which Manitok provided a 4% gross overriding royalty with no deductions on its Stolberg lands ("**Stolberg GORR Divestiture**") from both the Cardium and Mannville formations in exchange for additional undeveloped lands and revised terms to the Lease Issuance and Drilling Commitment Agreement with PrairieSky Royalty Ltd. ("**PSK LIDCA**"). The estimated fair value was determined to be $7.1 million and was based on the fair value of the Stolberg GORR Divestiture assets. Manitok recorded a loss of $0.8 million on the Stolberg GORR Divestiture for the year ended December 31, 2015.

In June 2015, the Corporation divested of a 5% gross overriding royalty of revenue with no deductions from the producing wells in the Wayne area ("**Wayne GORR Divestiture**") for net cash proceeds of $6.2 million after post-closing adjustments. The Corporation did not record a gain or loss on the divesture as the carrying value approximated the proceeds received, as the assets had just been acquired at fair value.

In June 2015, Manitok entered into a production volume royalty divestiture ("**PVR Divestiture**") with a royalty corporation for net cash proceeds of $24.4 million. The PVR Divestiture royalty volumes remain constant at 140 barrels per day of light crude oil for the first 8 years to May 31, 2023, and is then subject to a 10% decline per year thereafter. The royalty volumes are first allocated from the Corporation's Stolberg area, provided sufficient volumes are produced, and any short fall would be made up from oil production in the Wayne and Carseland areas, if it exists at that point in the future. There is an associated capital commitment as disclosed in note 25. Manitok recorded a loss of $2.8 million on the PVR Divestiture for the year ended December 31, 2015.

In June 2015, Manitok divested its interest in certain oil and gas infrastructure in the Wayne area ("**June 2015 Facility Divestiture**") for net cash proceeds of $7.1 million. The Corporation did not record a gain or loss on the divesture as the carrying value approximated the proceeds received, as the assets had just been acquired at fair value. The Corporation has entered into an agreement for the exclusive use of the oil and gas infrastructure, which include monthly facility fees included in commitments as set forth in note 25.

11. CREDIT FACILITIES

The components of the Corporation's credit facilities include:

($000)	**December 31, 2016**	December 31, 2015
Conforming Credit Facility	**19,783**	32,398
Non-conforming Credit Facility	**13,300**	30,000
Credit Facilities	**33,083**	62,398

As at December 31, 2016, the Corporation's credit facilities consisted of a $30.0 million revolving operating demand loan facility ("**Conforming Credit Facility**") and a $13.3 million non-revolving reducing demand loan facility ("**Non-Conforming Credit Facility**" and together with the Conforming Credit Facility, the "**Credit Facilities**"), for total Credit Facilities of $43.3 million. The Corporation is currently required to repay $0.5 million per month on the Non-Conforming Credit Facility until it is fully repaid.

The Credit Facilities are secured by a fixed charge debenture on the assets of the Corporation and are subject to review by the lender at any time in its sole discretion, and at least annually. The amount of the Credit Facilities are subject to a borrowing base test performed on a periodic basis by the lender, based primarily on reserves and using commodity prices estimated by the lender, as well as other factors. A change or redetermination of the borrowing base limit may result in a reduction in the Credit Facilities and a borrowing base shortfall must be remedied by the Corporation. The Credit Facilities are demand in nature and the lender may reduce the borrowing base at its sole discretion at any time. The next review dates for the Credit Facilities have been set for May 31, 2017. Information related to liquidity risk is disclosed in note 23.

Advances under the Credit Facilities are available by way of Canadian prime rate loans. The interest rates applicable to the advances are prime plus 3.0% on the Conforming Credit Facility and prime plus 5.0% on the Non-Conforming Credit Facility.

The effective interest rate applicable to the total debt issued under the Credit Facilities was 6.5% for the twelve months ended December 31, 2016 (December 31, 2015 – 4.6%).

The lending agreement provides for a financial covenant that requires the Corporation to maintain a working capital ratio (current assets excluding the fair value of financial instruments plus any undrawn portion of the Conforming Credit Facility divided by current liabilities excluding any current portion of an amount drawn on the Credit Facilities, the fair value of financial instruments, the deferred premium on financial instruments and provisions) of at least 1 to 1. As of December 31, 2016, the Corporation's working capital ratio was 1.04 to 1. There is minimal cushion on this covenant as at December 31, 2016 and uncertainty surrounding future compliance (see notes 12 and 13).

12. SENIOR SECURED NOTES

The components of the Corporation's Senior Secured Notes include:

($000)	Senior Secured	Warrants	**Total**
Issue of Senior Secured Notes with Warrants	20,037	1,170	**21,207**
Issue costs	(1,976)	(115)	**(2,091)**
Amortization of issue costs	48	-	**48**
Accretion of discount	29	-	**29**
Deferred income tax effect	-	(285)	**(285)**
Senior Secured Notes	18,138	770	**18,908**

In October 2016, Manitok issued $21.2 million of 10.5% Senior Secured Notes with attached warrants as disclosed in note 17. The Corporation issued 212,071 units with each unit consisting of a $100 note and 164 warrants. The Senior Secured Notes mature on November 15, 2021. Interest is payable quarterly to the holders of record immediately preceding February 1, May 1, August 1 and November 1. The Senior Secured Notes are redeemable at the Corporation's option, in whole or in part, commencing November 15, 2018 at the following specified redemption prices (expressed as a percentage of the principal amount): 2018 at 107.875%, 2019 at 105.250% and 2020 and thereafter at 100%. Prior to November 15, 2018, Manitok has the option to redeem up to 50% of the Senior Secured Notes at a redemption price of 110.50% plus accrued interest with an amount of cash not greater than the net cash proceeds of certain equity offerings.

The Senior Secured Notes are secured on a second-priority basis by substantially all of the Corporation's assets and are subordinate to indebtedness under the Credit Facilities.

The Senior Secured Notes are presented net of debt issue costs of $2.0 million and will be accreted at an effective interest rate of 13.8% such that the carrying amount of the Senior Secured Notes will equal the principal amount at maturity. The Senior Secured Notes were initially recognized at fair value based on similar debt securities without the warrant feature, net of debt issue costs and subsequently are carried at amortized cost. The principal amount of the Senior Secured Notes less the initial fair value has been allocated to the warrants.

The Senior Secured Notes have no financial covenants, but have an incurrence covenant in place that limits the Corporation's ability to among other things (subject to certain exceptions, limitations and qualifications): to make certain restricted payments and investments; incur additional debt; create liens; restrict dividends or other payments; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates. There are also cross default clauses in the Trust Indenture relating to events of default under other lending agreements (see notes 11 and 13).

13. LONG-TERM FINANCIAL OBLIGATIONS

In December 2014 and June 2015, the Corporation entered into financing arrangements with a third party, whereby the Corporation received $15.0 million ("**Facility Financing Agreements**"). Pursuant to the Facility Financing Agreements, the Corporation is required to make annual payments of $2.2 million over 20 years. The effective interest rate over the life of the obligation is 14.3% and the obligation is secured by certain facilities in the Stolberg and Wayne areas of Alberta.

Manitok has the option to terminate the Facility Financing Agreements at any time by paying consideration such that the third party earns a rate of return of 14.3% percent plus a penalty for the first four years and a 14.3% rate of return subsequent to the first four years. Upon the total payment of fees equal to 110% of the original financing ($16.5 million in payments over approximately 7.5 years), the third party has the option to require the Corporation to pay the remaining obligation, discounted at 16.2%.

There are cross default clauses in the Facility Financing Agreements relating to events of default under other lending agreements (see notes 11 and 12).

A reconciliation of the long-term financial obligations is provided below:

($000)	**December 31, 2016**	December 31, 2015
Opening Balance	**14,948**	2,500
Facility Financing Agreements	**-**	12,500
Principal repayments	**(92)**	(52)
Ending Balance	**14,856**	14,948

14. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in property and equipment including well sites and facilities. Manitok estimates the total inflation adjusted undiscounted amount of cash flows required to settle its decommissioning obligations as at December 31, 2016 to be approximately $140.4 million (2015 – $39.2 million) with the majority of costs anticipated to be incurred between 2020 and 2035. A risk-free discount rate of 2.3% (2015 – 2.2%) and an inflation rate of 2.0% (2015 – 2.0%) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

As at December 31, ($000)	**2016**	2015
Opening Balance	**27,718**	8,516
Obligations incurred	**645**	4
Obligations acquired	**27,269**	7,280
Obligations disposed	**(482)**	-
Actual expenditures	**(545)**	(1,064)
Changes in estimates[1]	**510**	1,794
Revaluation of acquired decommissioning obligations[2]	**31,127**	10,777
Accretion expense	**755**	411
Ending Balance	**86,997**	27,718

(1) The change in estimates consists of a change in the risk-free discount rate and a change in abandonment and remediation cost estimates and future abandonment dates.

(2) These amounts relate to the revaluation of acquired decommissioning obligations related to the acquisitions disclosed in note 9 using a risk-free discount rate. At the date of the acquisitions, the decommissioning obligations were estimated using a credit adjusted discount rate of 10%.

15. DEFERRED INCOME TAX

The provision for income tax in the Consolidated Financial Statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rates to the Corporation's loss before income taxes. This difference results from the following items:

For the years ended December 31 ($000)	**2016**	2015
Loss before income taxes	**(32,340)**	(35,120)
Combined federal and provincial income tax rate	**27%**	26%
Computed expected income tax recovery	**(8,732)**	(9,131)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock-based compensation	**209**	215
Non-deductible expenses	**6**	25
Increase in Alberta corporate income tax rates	**-**	705
Flow-through share expenditures	**1,513**	240
Change in unrecognized deferred income tax asset	**389**	-
Gain on asset acquisition (note 9)	**(1,414)**	-
Other	**383**	21
Deferred income tax recovery	**(7,646)**	(7,925)

Due to the impairments recognized in 2015 and 2016 and the continued weak commodity price forecast, Manitok has not recognized its deferred income tax asset of $0.7 million.

As of July 1, 2015, the Alberta government increased the provincial tax rate from 10% to 12% for a combined federal and provincial tax rate of 27%.

The components of deferred income tax assets and liabilities are as follows:

($000)	**Balance Jan 1, 2016(1)**	**Recognized in Profit or Loss**	**Recognized in Equity**	**Flow-Through Shares**	**Balance Dec 31, 2016**
Deferred income tax liabilities:					
Property and equipment and E&E assets	10,185	15,785	-	1,661	27,631
Senior Secured Notes and issuance costs	-	92	285	-	377
Fair value of financial instruments	5,576	(5,576)	-	-	-
Deferred income tax assets:					
Decommissioning obligations	(7,652)	(15,837)	-	-	(23,489)
Fair value of financial instruments	-	(776)	-	-	(776)
Deferred premium on financial instruments	(755)	755	-	-	-
Share and debt issue costs	(656)	346	(376)	-	(686)
Non-capital losses	(616)	(2,358)	-	-	(2,974)
Other	(6)	(77)	-	-	(83)
	6,076	**(7,646)**	**(91)**	**1,661**	**-**

($000)	**Balance Jan 1, 2015**	**Recognized in Profit or Loss**	**Recognized in Equity**	**Flow-Through Shares**	**Balance Dec 31, 2015**
Deferred income tax liabilities:					
Property and equipment and E&E assets	11,145	(3,053)	-	155	8,247
Fair value of financial instruments - asset	5,196	380	-	-	5,576
Deferred income tax assets:					
Decommissioning obligations	(2,129)	(5,355)	-	-	(7,484)
Deferred premium on financial instruments	(505)	(250)	-	-	(755)
Share issue costs	(619)	477	(505)	-	(647)
Non-capital losses	-	(124)	-	-	(124)
Other	(3)	-	-	-	(3)
	13,085	**(7,925)**	**(505)**	**155**	**4,810**

(1) The opening balance in 2016 has been adjusted to include the deferred income tax assets and liabilities included in the Raimount Arrangement and the WG Acquisition as disclosed in note 9.

The Corporation's unrecognized deductible temporary differences are as follows:

For the years ended December 31 ($000)	**2016**	2015
Non-capital losses	**2,766**	-

As at December 31, 2016, the Corporation has $154.9 million in tax pools available for deduction against future taxable income, which include non-capital loss carry forwards of $12.5 million (2015 - $0.5 million) which will expire in the years 2035 to 2036.

16. SHARE CAPITAL

(a) Authorized:

- Unlimited number of voting common shares
- Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance

(b) Issued and outstanding:

	Number of common shares	**Amount** ($000)
Outstanding, December 31, 2014	**65,279,607**	**105,701**
Issued, net of costs	12,587,600	9,466
Issued, net of costs	917,500	687
Issued, net of costs	6,305,077	4,685
Issued, net of costs (note 16c)	23,766,831	2,746
Issued, net of costs (note 16d)	35,079,500	3,975
Tax effect of share issue costs	-	505
Outstanding, December 31, 2015	**143,936,115**	**127,765**
Issued, net of costs (note 16e)	15,473,631	1,752
Issued, net of costs (note 16f)	1,170,000	129
Issued, net of costs (note 16g)	500,000	65
Issued, net of costs (note 16h)	8,435,945	1,330
Issued, net of costs (note 16i)	7,994,980	1,231
Issued, net of costs (note 16j)	8,333,334	1,317
Issued (note 16k)	41,207,196	5,769
Issued, net of costs (note 16l)	7,562,923	879
Issued, net of costs (note 16m)	4,599,829	529
Issued, net of costs (note 16n)	23,605,879	2,707
Tax effect of share issue costs (note 16o)	-	376
Outstanding, December 31, 2016	**262,819,832**	**143,849**

(c) In December 2015, Manitok closed the first tranche of a private placement equity financing for the issuance of 23,766,831 Manitok Shares at a price of $0.13 per Manitok Share for gross proceeds of $3.1 million (net proceeds - $2.7 million). A total of 800,000 Manitok Shares were purchased by insiders.

(d) In December 2015, Manitok closed the first tranche of a private placement equity financing for the issuance of 35,079,500 Manitok Shares on a "flow-through" basis under the *Income Tax Act* (Canada) in respect of Canadian exploration expense ("**Manitok CEE Flow-through Shares**") at a price of $0.15 per Manitok CEE Flow-through Share for gross proceeds of $5.3 million (net proceeds - $4.7 million). A total of 310,700 Manitok CEE Flow-through Shares were purchased by insiders. The Corporation had until December 31, 2016 to incur the $5.3 million in exploration expenditures. The amount recorded to share capital from the issuance of Manitok CEE Flow-through Shares of $4.0 million reflects the fair value of Manitok Shares, which was $0.13 per Manitok Share less share issue costs. The difference between the net proceeds of Manitok CEE Flow-through Shares and the fair value of Manitok Shares of $0.7 million is recognized as a flow-through share premium liability on the Consolidated Financial Statements. As at December 31, 2016, the Corporation has fulfilled the entire $5.3 million of the eligible exploration expenditures and has fully reversed the $0.7 million flow-through share premium liability.

(e) In January 2016, Manitok closed the second tranche of a private placement equity financing for the issuance of 15,473,631 Manitok Shares at a price of $0.13 per Manitok Share for gross proceeds of $2.0 million (net proceeds - $1.8 million). A total of 26,500 Manitok Shares were purchased by insiders.

(f) In January 2016, Manitok closed the second tranche of a private placement equity financing for the issuance of 1,170,000 Manitok CEE Flow-through Shares at a price of $0.15 per Manitok CEE Flow-through Share for gross proceeds of $0.2 million (net proceeds - $0.2 million). A total of 200,000 Manitok CEE Flow-through Shares were purchased by insiders. The amount recorded to share capital from the issuance of Manitok CEE Flow-through Shares of $0.1 million reflects the fair value of Manitok Shares, which was $0.13 per Manitok Share less share issue costs. The difference between the net proceeds of Manitok CEE Flow-through Shares and the fair value of Manitok Shares of $23,000 is recognized as a flow-through share premium liability on the Consolidated Financial Statements. As at December 31, 2016, the Corporation has fulfilled the entire $0.2 million of the eligible exploration expenditures and has fully reversed the $23,000 flow-through share premium liability.

(g) In February 2016, Manitok closed the third and final tranche of a private placement equity financing for the issuance of 500,000 Manitok Shares at a price of $0.13 per Manitok Share for gross proceeds of $0.1 million (net proceeds - $0.1 million). A total of 500,000 Manitok Shares were purchased by insiders.

(h) In May 2016, Manitok closed a private placement equity financing for the issuance of 8,435,945 Manitok Shares at a price of $0.18 per Manitok Share for gross proceeds of $1.5 million (net proceeds - $1.3 million). A total of 2,222,222 Manitok Shares were purchased by insiders.

(i) In May 2016, Manitok closed a private placement equity financing for the issuance of 7,994,980 Manitok CEE Flow-through Shares at a price of $0.21 per Manitok CEE Flow-through Share for gross proceeds of $1.7 million (net proceeds - $1.5 million). A total of 114,286 Manitok CEE Flow-through Shares were purchased by insiders. The Corporation has until December 31, 2017 to incur the $1.7 million in exploration expenditures. The amount recorded to share capital from the issuance of Manitok CEE Flow-through Shares of $1.2 million reflects the fair value of Manitok Shares, which was $0.18 per Manitok Share less share issue costs. The difference between the net proceeds of Manitok CEE Flow-through Shares and the fair value of Manitok Shares of $0.2 million is recognized as a flow-through share premium liability on the Consolidated Financial Statements. As at December 31, 2016, the Corporation has incurred $0.4 million of the eligible exploration expenditures and has reversed $0.1 million of the flow-through share premium liability.

(j) In July 2016, the Corporation closed a non-brokered private placement offering of 8,333,334 subscription receipts ("**Subscription Receipts**") at a price of $0.18 per Subscription Receipt for gross proceeds of $1.5 million (net proceeds - $1.3 million). In August 2016, the Subscription Receipts were exchanged for Manitok Shares on a 1 to 1 basis.

(k) In August 2016, the Corporation issued 41,207,196 Manitok Shares pursuant to the Raimount Arrangement as disclosed in note 9. The Manitok Shares were issued at a value of $5.8 million based on Manitok's trading price of $0.14 per Manitok Share on the closing date of August 19, 2016.

(l) In November 2016, Manitok closed an equity financing by way of a short form base shelf prospectus as supplemented by the Corporation's prospectus supplement for the issuance of 7,562,923 Manitok Shares at a price of $0.13 per Manitok Share for gross proceeds of $1.0 million (net proceeds - $0.9 million).

(m) In November 2016, Manitok closed an equity financing by way of a short form base shelf prospectus as supplemented by the Corporation's prospectus supplement for the issuance of 4,599,829 Manitok Shares on a "flow-through" basis under the *Income Tax Act* (Canada) in respect of Canadian development expense ("**Manitok CDE Flow-through Shares**") at a price of $0.14 per Manitok CDE Flow-through Share for gross proceeds of $0.6 million (net proceeds - $0.5 million). The amount recorded to share capital from the issuance of Manitok CEE Flow-through Shares of $0.5 million reflects the fair value of Manitok Shares, which was $0.13 per Manitok Share less share issue costs. The difference between the net proceeds of Manitok CDE Flow-through Shares and the fair value of Manitok Shares of $0.1 million is recognized as a flow-through share premium liability on the Consolidated Financial Statements. As at December 31, 2016, the Corporation has fulfilled the entire $0.6 million of the eligible development expenditures and has fully reversed the $0.1 million flow-through share premium liability.

(n) In November 2016, Manitok closed an equity financing by way of a short form base shelf prospectus as supplemented by the Corporation's prospectus supplement for the issuance of 23,605,879 Manitok CEE Flow-through Shares at a price of $0.145 per Manitok CEE Flow-through Share for gross proceeds of $3.4 million (net proceeds - $3.1 million). The Corporation has until December 31, 2017 to incur the $3.4 million in exploration expenditures. The amount recorded to share capital from the issuance of Manitok CEE Flow-through Shares of $2.7 million reflects the fair value of Manitok Shares, which was $0.13 per Manitok Share less share issue costs. The difference between the net proceeds of Manitok CEE Flow-through Shares and the fair value of Manitok Shares of $0.4 million is recognized as a flow-through share premium liability on the Consolidated Financial Statements. As at December 31, 2016, the Corporation has not incurred any of the eligible exploration expenditures.

(o) Manitok recognized a deferred income tax benefit of $0.4 million related to the share issue costs of $1.4 million incurred with respect to the issuance of Manitok Shares, Manitok CDE Flow-through Shares and Manitok CEE Flow-through Shares.

17. WARRANTS

Senior Secured Note Warrants

In October 2016, Manitok issued $21.2 million of 10.5% Senior Secured Notes with attached warrants. As part of the Senior Secured Note offering, 34.8 million warrants were issued based on 212,071 units and 164 warrants with each unit. Each warrant entitles the holder to purchase one Manitok Share at an exercise price of $0.18 per Manitok Share and the warrants are exercisable at any time prior to November 15, 2021. A fair value of $1.2 million has been attributed to the warrants and was determined based on the Senior Secured Notes principal value of $21.2 million less the fair value attributed to the Senior Secured Notes as disclosed in note 12.

A summary of the Corporation's outstanding Senior Secured Note Warrants as at December 31, 2016 is presented below:

	Number of Senior Secured Note Warrants	Amount ($000s)
Outstanding, December 31, 2015	**-**	**-**
Issued with Senior Secured Notes (expire November 15, 2021)	34,779,644	1,170
Deferred income tax effect	-	(285)
Warrant issuance costs	-	(115)
Outstanding, December 31, 2016	**34,779,644**	**770**

Raimount Arrangement Warrants

In connection with the Raimount Arrangement as disclosed in note 9, Manitok issued Raimount Arrangement Warrants in August 2016, with each Raimount Arrangement Warrant entitling the holder to acquire one Manitok Share at an exercise price of $0.30 per Manitok Share for a period of two years after the date of issuance of such Raimount Arrangement Warrants. The fair value of the Raimount Arrangement Warrants were estimated using the Black-Scholes option-pricing model.

A summary of the Corporation's outstanding Raimount Arrangement Warrants as at December 31, 2016 is presented below:

	Number of Raimount Arrangement Warrants	Amount ($000s)
Outstanding, December 31, 2015	**-**	**-**
Issued (expire August 19, 2018)	10,301,837	518
Outstanding, December 31, 2016	**10,301,837**	**518**

The fair value of each Raimount Arrangement Warrant granted in the period was estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

As at	**August 19, 2016**
Weighted average fair value of warrants granted	**$0.05**
Risk-free interest rate	**0.57%**
Expected life (years)	**2.0**
Expected volatility	**103%**
Estimated forfeiture rate	**-**
Expected dividends	**-**

Broker Warrants

In connection with the equity issuances as disclosed in notes 16c to 16e, Manitok issued broker purchase warrants ("**Broker Warrants**"), with each Broker Warrant entitling the holder to acquire one Manitok Share at an exercise price of $0.13 per Manitok Share for a period of 18 months after the date of issuance of such Broker Warrants. The fair value of Broker Warrants were recorded to share issuance costs.

A summary of the Corporation's outstanding Broker Warrants as at December 31, 2016 is presented below:

	Number of Broker Warrants	Weighted Average Exercise Price ($)
Outstanding, December 31, 2014	**-**	**-**
Issued (expire June 30, 2017)	1,170,713	0.13
Outstanding, December 31, 2015	**1,170,713**	**0.13**
Issued (expire July 26, 2017)	70,414	0.13
Outstanding, December 31, 2016	**1,241,127**	**0.13**

The fair value of each Broker Warrant was recorded to share issuance costs and was estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

For the years ended December 31	**2016**	2015
Weighted average fair value of options granted	**$0.06**	$0.06
Risk-free interest rate	**0.48%**	0.48%
Expected life (years)	**1.5**	1.5
Expected volatility	**98%**	98%
Estimated forfeiture rate	**-**	-
Expected dividends	**-**	-

18. SHARE-BASED PAYMENTS

Stock Options

The Corporation established an Incentive Stock Option Plan ("**Plan**") whereby Directors, Officers and employees of, and consultants and advisors to, the Corporation may be granted options to purchase Manitok Shares at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions. Stock options granted under this Plan vest over a three year period at the rate of one-third on each anniversary date of the stock option grant. All stock options granted are for a five year term. Each stock option entitles the holder to purchase one Manitok Share at the exercise price. The Corporation is authorized to issue stock options to a maximum of 10% of the issued and outstanding Manitok Shares pursuant to the Plan.

At December 31, 2016, the Corporation's Plan permitted the grant of options to a maximum of 26,281,983 Manitok Shares. At December 31, 2016, there remained available for issuance stock options in respect of 9,831,883 Manitok Shares. No stock options were exercised in the twelve months ended December 31, 2016 and December 31, 2015.

A summary of the Corporation's outstanding stock options as at December 31, 2016 is presented below:

	Number of stock options	Weighted Average Exercise Price ($)
Outstanding, December 31, 2014	**5,308,606**	**1.97**
Granted	1,302,500	0.77
Expired	(667,340)	(1.10)
Forfeited	(716,333)	(1.89)
Outstanding, December 31, 2015	**5,227,433**	**1.79**
Granted	12,445,100	0.16
Expired	(608,333)	(1.31)
Forfeited	(614,100)	(0.62)
Outstanding, December 31, 2016	**16,450,100**	**0.62**

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2016 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
0.16	0.50	12,082,600	4.3	0.16	29,167	3.9	0.18
0.51	1.00	1,109,500	3.1	0.81	369,832	3.1	0.81
1.01	1.50	5,000	0.3	1.45	5,000	0.3	1.45
1.51	2.00	1,258,000	1.9	1.69	986,333	1.6	1.71
2.01	2.50	1,351,500	2.1	2.39	911,002	2.1	2.39
2.51	3.12	643,500	1.1	3.05	643,500	1.1	3.05
		16,450,100	**3.7**	**0.62**	**2,944,834**	**1.9**	**2.09**

The fair value of each option granted in the period is estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

For the years ended December 31	2016	2015
Weighted average fair value of options granted	**$0.08**	$0.42
Risk-free interest rate	**0.59%**	0.65%
Expected life (years)	**3.6**	4.1
Expected volatility	**78%**	73%
Estimated forfeiture rate	**17.0%**	9.7%
Expected dividends	**-**	-

19. PER SHARE INFORMATION

For the years ended December 31	**2016**	2015
Net loss and comprehensive loss ($000)	**(24,694)**	(27,195)
Weighted average Manitok Shares outstanding - basic	**191,244,177**	76,292,523
Weighted average Manitok Shares outstanding - diluted	**191,244,177**	76,292,523
Net loss per share – basic and diluted ($)	**(0.13)**	(0.36)

The weighted average diluted Manitok Shares outstanding at December 31, 2016 excludes 16,450,100 (2015 – 5,227,433) stock options and 46,322,608 warrants (2015 – NIL) that are anti-dilutive. As the Corporation reported a loss for the years ended December 31, 2016 and 2015, the basic and diluted weighted average shares outstanding are the same for that period.

20. ADMINISTRATIVE EXPENSES

The components of administrative expenses are as follows:

For the years ended December 31 ($000)	**2016**	2015
Cash:		
Salaries and benefits[1]	**4,579**	5,597
Other [2]	**4,361**	4,520
	8,940	10,117
Operating overhead recoveries	**(199)**	(302)
Capitalized overhead[3]	**(2,171)**	(3,181)
General and administrative, net	**6,570**	6,634
Non-cash:		
Stock-based compensation	**1,015**	1,269
Capitalized stock-based compensation[3]	**(403)**	(631)
Stock-based compensation, net	**612**	638
Total administrative expenses, net	**7,182**	7,272

(1) Includes salaries, benefits and bonuses paid to all Officers, Directors, employees and consultants of the Corporation.
(2) Includes costs such as rent, professional fees, insurance, computer software licenses and other business expenses incurred by the Corporation.
(3) Represents a portion of salaries, benefits, software and stock-based compensation that are directly attributable to the exploration and development activities of the Corporation which have been capitalized.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation. The key management personnel compensation is comprised of the following:

For the years ended December 31 ($000)	**2016**	2015
Salaries and benefits[1]	**1,310**	1,608
Stock-based compensation[2]	**682**	747
Total key management remuneration	**1,992**	2,355

(1) Includes salaries, benefits and bonuses earned by Officers and Directors comprising of: Chairman of the Board, President & Chief Executive Officer, Executive Vice President, Business Development, Vice President & Chief Operating Officer, Vice President, Finance & Chief Financial Officer, Vice President, Engineering, Vice President, Exploration, Vice President, Land and other independent Directors.
(2) Represents the amortization of stock-based compensation expense in the year associated with stock options granted to Officers and Directors participating in the Corporation's incentive stock option plan.

21. FINANCE EXPENSES

The components of finance expenses are as follows:

For the years ended December 31 ($000)	**2016**	2015
Cash:		
Interest costs	**6,053**	4,933
Effective interest on Senior Secured Notes (note 12)	**48**	-
Acquisition-related expenses[1]	**952**	1,892
	7,053	6,825
Non-cash:		
Accretion on discount of Senior Secured Notes (note 12)	**29**	-
Accretion on decommissioning obligations (note 14)	**755**	411
Total finance expenses	**7,837**	7,236

(1) Acquisition-related expenses are associated with the acquisitions as disclosed in note 9.

22. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from acquisitions; to maintain a capital structure that allows Manitok to finance its growth strategy using internally-generated cash flow from operating activities and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

Manitok strives to properly exploit its current asset base and to acquire top quality assets. As such, the Corporation is not averse to maintaining a higher ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality. However, the Corporation manages its capital structure and makes adjustments considering changes in economic conditions and the risk characteristics of the assets. In order to maintain or adjust the capital structure, Manitok may issue new Manitok Shares or debt, obtain other third party funding alternatives, divest of assets or adjust its capital spending to manage current and projected debt levels. Management anticipates it will be able to continue to obtain financing sufficient to meet both its short-term and long-term growth requirements in the current environment.

The Corporation's Credit Facilities are subject to a review of the borrowing base limit by the lender at any time in its sole discretion, and at least annually, which is directly impacted by the value of Manitok's petroleum and natural gas reserves. The Credit Facilities are demand in nature and the lender may reduce the borrowing base at its sole discretion at any time. The Corporation is required to repay $0.5 million per month on the Non-Conforming Credit Facility each month until it is fully repaid.

There were no changes in the Corporation's approach to capital management in 2016.

The following table shows the Corporation's total available credit on the Credit Facilities:

As at December 31 ($000)	**2016**	2015
Maximum borrowing base limit		
Conforming Credit Facility[(1)]	**30,000**	45,000
Non-Conforming Credit Facility[(1)]	**13,300**	30,000
	43,300	75,000
Principle amount utilized		
Drawn Conforming Credit Facility	**(19,783)**	(32,398)
Drawn Non-Conforming Credit Facility	**(13,300)**	(30,000)
Outstanding letters of credit[(2)]	**(230)**	(290)
	(33,313)	(62,688)
Undrawn Credit Facilities	**9,987**	12,312

(1) The Corporation's lender requires quarterly compliance that the working capital ratio (current assets excluding the fair value of financial instruments plus any undrawn portion of the Conforming Credit Facility divided by current liabilities excluding any current portion of an amount drawn on the Credit Facilities, the fair value of financial instruments, the deferred premium on financial instruments and current provisions) is not less than 1:1. As at December 31, 2016, the Corporation's working capital ratio was 1.0:1.

(2) Letters of credit are issued to service providers.

The capital structure of the Corporation is as follows:

As at December 31 ($000)	**2016**	2015
Total shareholders' equity[(1)]	**74,237**	80,540
Total shareholders' equity as a % of total capital	**50%**	54%
Adjusted working capital (surplus) deficit[(2)]	**9,074**	(8,951)
Drawn on Credit Facilities	**33,083**	62,398
Senior Secured Notes	**18,138**	-
Long-term financial obligations	**14,856**	14,948
Total net debt	**75,151**	68,395
Total net debt as a % of total capital	**50%**	46%
Total Capital[(3)]	**149,388**	148,935

(1) Shareholders' equity is defined as share capital, plus warrants, plus contributed surplus less the deficit.

(2) Adjusted working capital (surplus) deficit is defined as current assets less current liabilities excluding the amount drawn on the Credit Facilities, the fair value of financial instruments, the deferred premium on financial instruments and current provisions.

(3) Total capital is defined as total shareholders' equity plus total net debt.

23. FINANCIAL INSTRUMENTS & RISK MANAGEMENT CONTRACTS

Manitok is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Corporation, sets appropriate risk limits and controls and monitors risks, market conditions and the Corporation's activities.

Credit Risk

Manitok is exposed to third party credit risk through its contractual arrangements with its joint interest partners, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Manitok, such failures could have a material adverse effect. The Corporation manages the risk by reviewing the credit risk of these entities and by entering into agreements only with parties that meet certain credit tests. The maximum credit risk that the Corporation is exposed to at any point in time is the carrying value of the accounts receivable.

The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The following table illustrates the Corporation's maximum exposure for accounts receivables:

As at December 31 ($000)	**2016**	2015
Marketers	**8,117**	3,982
Joint venture partners	**1,136**	2,755
Other	**535**	11,289
Total Receivables	**9,788**	18,026

The majority of the credit exposure on accounts receivable at December 31, 2016, pertains to revenue for accrued December 2016 production volumes. Receivables from the marketing companies are typically collected on the 25th day of the month following production. Manitok mitigates the credit risk associated with these receivables by establishing relationships with credit worthy purchasers. The Corporation historically has not experienced any material collection issues with its marketers.

Manitok attempts to mitigate the credit risk from joint venture receivables by obtaining pre-approval of significant capital expenditures and collecting cash calls from joint venture partners prior to significant capital projects. However, joint venture receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risks exist with joint venture partners as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment.

The Corporation's accounts receivables are aged as follows:

As at December 31 ($000)	**2016**	2015
Current (less than 30 days)	**8,667**	16,499
30 to 60 days	**251**	306
61 to 90 days	**294**	285
Over 90 days	**576**	936
Total Receivables	**9,788**	18,026

At December 31, 2016, approximately 6% of Manitok's total accounts receivable are aged over 90 days and considered past due. The majority of these past due amounts are from various joint venture partners.

Commodity price risk management contracts are used by the Corporation to manage economic exposure to market risk relating to commodity prices. Manitok manages credit risk exposure related to derivative assets by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes.

The carrying amount of accounts receivable and commodity price risk management contracts represents the maximum credit risk exposure. Should Manitok determine that the ultimate collection of a financial instrument is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to income or loss. If the Corporation subsequently determines an account is uncollectible, the account is written off with a corresponding charge to allowance for doubtful accounts. Manitok believes all accounts receivable balances are collectable and as a result, did not have an allowance for doubtful accounts balance as at December 31, 2016 and December 31, 2015.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. Manitok's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

All of the Corporation's contractual financial liabilities can be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenditures, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum

and natural gas production is monitored daily and is used to provide monthly cash flow estimates. Also, Manitok utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditures. The Corporation also attempts to match its payment cycle with the collection of petroleum and natural gas revenue on the 25th day of each month. Should commodity prices deteriorate materially, Manitok may adjust its capital spending accordingly to ensure that it is able to service its short-term financial obligations.

To facilitate the capital expenditure program, the Corporation has reserve-based Credit Facilities, as disclosed in note 11. The current economic environment relating to the oil and gas industry has made access to both debt and equity capital challenging for many companies. Manitok is evaluating measures such as, equity financing, alternative debt arrangements, joint venture opportunities, asset acquisitions or divestitures, and other third party funding alternatives that will reduce the Corporation's bank indebtedness. The Corporation has identified that it will not be able to meet its commitments based on its current forecasted cash flow and the available Credit Facilities. Furthermore, there can be no assurance that the Corporation will be successful in its efforts to renew the Credit Facilities at acceptable levels, or to arrange additional financing, if required, or complete other transactions on terms satisfactory to the Corporation or at all. The next review dates for the Credit Facilities have been set for May 31, 2017. While Manitok has not received an indication if its lender will demand repayment in the next twelve months, the demand nature including the Non-Conforming Facility does create uncertainty.

The following table lists the contractual obligations of the Corporation's financial liabilities as at December 31, 2016:

($000)	Carrying Amount	2017	2018 - 2019	2020 – 2021	Thereafter
Accounts payable and accrued liabilities	19,768	19,768	-	-	-
Provision for building lease obligation	2,368	1,321	282	270	495
Drawn Credit Facilities	33,083	33,083	-	-	-
Fair value of financial instruments	2,876	2,876	-	-	-
Senior Secured Notes (note 12)	18,138	2,229	4,453	25,382	-
Long-term financial obligations(1)	14,856	2,235	4,470	4,470	29,899
Total Financial Liabilities	**91,089**	**61,512**	**9,205**	**30,122**	**30,394**

(1) The long-term financial obligations are $2.2 million per year for 20 years as set forth in note 13. The majority of the annual payment relates to interest and the current portion of the principal payments are immaterial.

Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's income or loss or the value of its derivative financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years. All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Corporation's cash flows and borrowing base limit under its Credit Facilities. Lower commodity prices may also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States, but also by world events that dictate the levels of supply and demand.

The Corporation attempts to mitigate commodity price risk through the use of various derivative financial instruments and physical delivery sales contracts to reduce volatility in its financial results and protect its cash flows and capital expenditure program. These instruments are not used for trading or speculative purposes. Manitok has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the Consolidated Financial Statements at fair value, with the changes in fair value being recognized in income or loss.

Financial Derivatives

As at December 31, 2016, the Corporation held the following derivative financial instruments:

Product	Notional Quantity	Term	Reference	Strike Price	Type of Contract	Fair Value ($000)
Oil	250 bbls/d	January 1, 2017 to December 31, 2017	US$ WTI	$46.00	Option[(1)]	(556)
Oil	250 bbls/d	January 1, 2017 to December 31, 2017	US$ WTI	$41.00	Option[(2)]	(607)
Oil	250 bbls/d	January 1, 2017 to December 31, 2017	US$ WTI	$42.60	Option[(3)]	(613)
Oil	250 bbls/d	January 1, 2017 to December 31, 2017	US$ WTI	$42.00	Option[(4)]	(464)
Natural gas	4,000 GJs/d	January 1, 2017 to December 31, 2017	CAD$ AECO	$2.28	Option[(5)]	(387)
Natural gas	4,000 GJs/d	January 1, 2017 to December 31, 2017	CAD$ AECO	$2.52	Option[(6)]	(249)
Total						**(2,876)**
Current liability						**(2,876)**
Non-current liability						-

(1) Manitok entered an option contract with a floor price of US$46.00 per barrel for the period indicated and upside participation of 50% in the event the US$ WTI reference price is above the floor price.
(2) Manitok entered an option contract with a floor price of US$41.00 per barrel for the period indicated and upside participation of 65% in the event the US$ WTI reference price is above the floor price.
(3) Manitok entered an option contract with a floor price of US$42.60 per barrel for the period indicated and upside participation of 60% in the event the US$ WTI reference price is above the floor price.
(4) Manitok entered an option contract with a floor price of US$42.00 per barrel for the period indicated and upside participation of 70% in the event the US$ WTI reference price is above the floor price.
(5) Manitok entered an option contract with a floor price of CAD$2.28 per gigajoule for the period indicated and upside participation of 70% in the event the CAD$ AECO reference price is above the floor price.
(6) Manitok entered an option contract with a floor price of CAD$2.52 per gigajoule for the period indicated and upside participation of 70% in the event the CAD$ AECO reference price is above the floor price.

The fair value of these commodity risk management contracts at December 31, 2016 was a liability of $2.9 million (2015 – asset of $20.7 million). The fair value measurement of derivative financial instruments is classified as level 2 of the fair value hierarchy in note 5. As at December 31, 2016, a 10% decrease to the forward price curves outlined in the swap contracts above would result in approximately $0.3 million of additional pre-tax income.

The Corporation monetized certain derivative financial instruments in the first quarter of 2016 for a cash receipt of $12.3 million to reduce bank indebtedness.

Subsequent to December 31, 2016, the Corporation entered into the following derivative financial instruments:

Product	Notional Quantity	Term	Reference	Strike Price	Type of Contract
Natural gas	2,000 GJs/d	January 1, 2017 to December 31, 2017	CAD$ AECO	$2.20	Option[(1)]
Natural gas	2,000 GJs/d	January 1, 2017 to December 31, 2017	CAD$ AECO	$2.10	Option[(2)]

(1) Manitok entered an option contract with a floor price of CAD$2.20 per gigajoule for the period indicated and upside participation of 70% in the event the CAD$ AECO reference price is above the floor price.
(2) Manitok entered an option contract with a floor price of CAD$2.10 per gigajoule for the period indicated and upside participation of 70% in the event the CAD$ AECO reference price is above the floor price.

Physical Sales Contracts

In addition to the financial derivative contracts discussed above, the Corporation may also enter in physical sales contracts to manage commodity risk. These contracts are considered normal executory contracts and are not recorded at fair value in the financial statements. As at December 31, 2016, the Corporation had no physical sales contracts in place and there were no physical sales contracts entered subsequent to December 31, 2016.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Manitok for its petroleum and natural gas sales. The Corporation had no forward exchange rate derivative financial instruments in place as at or during the years ended December 31, 2016 and December 31, 2015.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's Credit Facilities are exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates. The remainder of Manitok's financial assets and liabilities including the long-term financial obligations and Senior Secured Notes are not exposed to interest rate risk. The Corporation had no interest rate derivative financial instruments as at or during the years ended December 31, 2016 and December 31, 2015.

24. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details the components of non-cash working capital:

For the years ended December 31 ($000)	**2016**	2015
Provided by (used in):		
Accounts receivable	**8,238**	6,009
Deposits and prepaid expenses	**84**	(138)
Accounts payable and accrued liabilities	**9,812**	(37,617)
Acquisition of working capital (note 9)	**(720)**	-
	17,414	(31,746)
Provided by (used in):		
Operating activities	**2,720**	69
Financing activities	**7,491**	(7,491)
Investing activities	**7,203**	(24,324)
	17,414	(31,746)

25. COMMITMENTS

a) Lease Issuance and Drilling Commitment Agreement

According to the PSK LIDCA, Manitok committed to the following annual work program including minimum annual drilling and completion expenditures and a minimum annual number of wells drilled, completed and tied-in or abandoned:

	Minimum Commitment		**Work Program Incurred**		**Remaining Minimum Commitment**	
Year	Number of wells	Drilling and Completion Expenditures ($000)	Number of wells	Drilling and Completion Expenditures ($000)	Number of wells	Drilling and Completion Expenditures ($000)
2014	13	34,000	13	34,000	-	-
2015	1	5,250	1	5,250	-	-
2016	9	30,750	21	30,750	-	-
2017	8	35,750	-	-	8	35,750
April 30, 2018	5	20,250	-	-	5	20,250
Total	36	126,000	35	70,000	13	56,000

In 2015, the Corporation entered into a farm-out agreement with a private oil and gas company ("**Farmee**") whereby the Farmee committed to spend up to $20.0 million from the fourth quarter of 2015 to the end of 2016 in the Rockyford area and depending on the level of success achieved with the drilling, may lead to additional capital spending, with the Farmee having an option to drill the offset wells before the end of 2017 ("**Farm-out Agreement**"). Manitok will have the option, but not the obligation to participate in each well and will be carried for a 5% working interest by the Farmee in each well it does not participate. The entire capital spend from the Farm-out Agreement

will be fully allocated to the Corporation's capital commitment pursuant to the PSK LIDCA. The Farmee did meet its $20.0 million spending commitment in 2016.

In 2015, the Corporation entered into a seismic review and farm-out option agreement with a private oil and gas company ("**Optionee**") whereby the Optionee elected to drill a well in the Beiseker area of southeast Alberta ("**Seismic and Farm-out Option Agreement**"). Manitok's working interest costs with respect to the well were carried by the Optionee. The entire capital spend from the Seismic and Farm-out Option Agreement was fully allocated to the Corporation's capital commitment pursuant to the PSK LIDCA. The well was unsuccessful and has been abandoned. The Corporation does not anticipate further spending by the Optionee pursuant to the Seismic and Farm-out Option Agreement.

b) PVR Divestiture Capital Commitments

Pursuant to a production volume royalty divestiture in June 2015, with a royalty corporation for net cash proceeds of $24.4 million after post-closing adjustments, Manitok is committed to incur a minimum capital commitment of $10.0 million per year in 2017 and 2018 on drilling, completion, re-completion, workover, equipping and tie-in for the production of wells targeting the Carseland and/or Wayne areas of southeast Alberta. This commitment is concurrent with the PSK LIDCA commitment and is not an additional spending commitment.

Additionally, Manitok has agreed, but is not obligated to drill at least two gross wells per year in 2017 and 2018 in the Stolberg area. In the event Manitok does not meet this commitment, the royalty corporation may either grant an extension to Manitok, drill the wells itself or elect to do nothing.

c) Flow-through Share Commitments

The Corporation is committed to incur exploration expenditures of $5.3 million on or before December 31, 2017, related to the Manitok CEE Flow-through Share issuance completed in May 2016 and November 2016, as indicated in notes 16i and 16n. As at December 31, 2016, the costs incurred for exploration expenditures were $0.4 million leaving $4.7 million to be incurred on or before December 31, 2017.

d) Facility Fee Commitments

In December 2014 and June 2015, Manitok divested its interest in certain oil and gas infrastructure in the Stolberg, Carseland and Wayne areas for gross cash proceeds of $20.0 million. The Corporation has entered into an agreement for the exclusive use of the above-noted oil and gas infrastructure, which includes a monthly facility fee that is included in operating expenses. The Corporation is committed to the following annual facility fees associated with the agreements for the exclusive use of oil and gas infrastructure:

Year	($000)
2017	2,937
2018	2,937
2019	2,937
2020	2,937
2021	2,937
2022	2,937
2023	506

e) Office Rent Commitment

Manitok has committed to a new operating lease relating to new office space commencing November 2016 and expiring on November 30, 2025, which includes a rent free period to December 31, 2017 and various other rent reduction allowances. Pursuant to the Raimount Arrangement, Manitok is committed to office space with lease payments commencing July 1, 2017 to June 30, 2025 for a total commitment of about $0.9 million. The Corporation is in the process of mitigating this obligation by subleasing the space to a third party. Manitok also remains committed to two other operating leases relating to its previous office premises expiring on February 28, 2017 and November 30, 2017. The Corporation has subleased approximately 25% of the cost of its previous office space to arm's length parties for the remainder of the lease terms. The Corporation is committed to the following aggregate minimum lease payments including expected operating costs**:**

Year	($000)
2017	1,225
2018	817
2019	817
2020	1,080
2021	1,266
2022	1,365
2023	1,416
2024	1,416
2025	1,126

26. SUBSEQUENT EVENT

- On May 1, 2017, the Corporation announced that Manitok and Craft Oil Ltd. ("**Craft**") have entered into an arrangement agreement dated as of April 28, 2017 (the "**Arrangement Agreement**"). Under the terms of the Arrangement Agreement, Manitok will acquire all of the issued and outstanding common shares of Craft by way of a plan of arrangement under the *Business Corporations Act* (Alberta) for $6.6 million of Manitok Shares.