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LEUCROTТА
EXPLORATION INC.

Q4 2017 FINANCIAL AND OPERATING RESULTS

LEUCROTTA EXPLORATION INC. (TSXV – LXE) (“Leucrotta” or the “Company”) is pleased to announce its financial and operating results for the three months and year ended December 31, 2017. All dollar figures are Canadian dollars unless otherwise noted.

Q4/17 HIGHLIGHTS

- Increased production 361% to 3,802 boe/d in Q4 2017 from 824 boe/d in Q4 2016 (increased 22% from 3,123 boe/d in Q3 2017).
- Increased adjusted funds flow 4,653% to \$4.5 million in Q4 2017 from adjusted funds flow of negative \$0.1 million in Q4 2016.
- Tied-in Mica 9-33 and Doe 4-12 Lower Montney Turbidite wells.

FINANCIAL RESULTS

(\$000s, except per share amounts)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and natural gas sales	9,586	2,281	320	26,844	8,844	204
Adjusted funds flow ⁽¹⁾	4,462	(98)	(4,653)	9,602	(996)	(1,064)
Per share - basic and diluted	0.02	-	100	0.05	(0.01)	(600)
Net loss	(5,072)	(1,657)	206	(8,222)	(12,182)	(33)
Per share - basic and diluted	(0.03)	(0.01)	200	(0.04)	(0.07)	(43)
Capital expenditures and acquisitions	15,870	11,718	35	93,514	22,574	314
Working capital				18,660	26,063	(28)
Common shares outstanding (000s)						
Weighted average - basic and diluted	200,486	165,227	21	189,377	165,227	15
End of period - basic				200,497	165,227	21
End of period - fully diluted				227,108	189,297	20

(1) Adjusted funds flow and adjusted funds flow per share do not have any standardized meaning prescribed by International Financial Reporting Standards (“IFRS”) and therefore may not be comparable to similar measures used by other companies. Please refer to the “Non-GAAP Measures” section in the MD&A for more details and the “Adjusted Funds Flow” section in the MD&A for a reconciliation from cash flow from (used in) operating activities.

OPERATING RESULTS ⁽¹⁾

	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Daily production						
Oil and NGLs (bbls/d)	1,290	234	451	820	317	159
Natural gas (mcf/d)	15,071	3,543	325	12,268	4,325	184
Oil equivalent (boe/d)	3,802	824	361	2,865	1,038	176
Revenue						
Oil and NGLs (\$/bbl)	61.61	53.60	15	56.84	45.04	26
Natural gas (\$/mcf)	1.64	3.46	(53)	2.20	2.30	(4)
Oil equivalent (\$/boe)	27.41	30.08	(9)	25.67	23.35	10
Royalties						
Oil and NGLs (\$/bbl)	7.64	6.99	9	6.63	4.69	41
Natural gas (\$/mcf)	0.04	0.16	(75)	0.06	0.06	-
Oil equivalent (\$/boe)	2.75	2.68	3	2.17	1.67	30
Production expenses						
Oil and NGLs (\$/bbl)	6.53	26.24	(75)	7.66	18.52	(59)
Natural gas (\$/mcf)	0.94	1.76	(47)	1.08	1.27	(15)
Oil equivalent (\$/boe)	5.95	15.02	(60)	6.81	10.96	(38)
Transportation expenses						
Oil and NGLs (\$/bbl)	2.11	6.04	(65)	2.69	5.24	(49)
Natural gas (\$/mcf)	0.51	0.47	9	0.65	0.44	48
Oil equivalent (\$/boe)	2.75	3.71	(26)	3.55	3.43	3
Operating netback ⁽²⁾						
Oil and NGLs (\$/bbl)	45.33	14.33	216	39.86	16.59	140
Natural gas (\$/mcf)	0.15	1.07	(86)	0.41	0.53	(23)
Oil equivalent (\$/boe)	15.96	8.67	84	13.14	7.29	80
Depletion and depreciation (\$/boe)	(9.21)	(13.07)	(30)	(9.77)	(13.07)	(25)
Exploration and evaluation (\$/boe)	(17.84)	-	100	(5.97)	-	100
General and administrative expenses (\$/boe)	(3.45)	(11.08)	(69)	(4.32)	(11.11)	(61)
Share based compensation (\$/boe)	(1.05)	(7.11)	(85)	(1.49)	(9.36)	(84)
Finance expenses (\$/boe)	(0.32)	(0.81)	(60)	(0.27)	(0.49)	(45)
Finance income (\$/boe)	0.42	1.54	(73)	0.48	1.35	(64)
Loss on sale of assets (\$/boe)	(1.40)	-	100	(0.47)	(6.77)	(93)
Deferred income tax recovery (\$/boe)	2.38	-	100	0.80	-	100
Net loss (\$/boe)	(14.51)	(21.86)	(34)	(7.87)	(32.16)	(76)

(1) "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(2) Operating netback does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. Please refer to the "Non-GAAP Measures" section in the MD&A for more details.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

April 23, 2018

The MD&A should be read in conjunction with the audited financial statements and related notes for the years ended December 31, 2017 and 2016. The audited financial statements and financial data contained in the MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are expressed in Canadian currency, unless otherwise noted.

DESCRIPTION OF BUSINESS

Leucrotta Exploration Inc. ("Leucrotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in northeastern British Columbia, Canada. The Company trades on the TSX Venture Exchange ("TSXV") under the symbol "LXE".

FREQUENTLY RECURRING TERMS

The Company uses the following frequently recurring industry terms in the MD&A: "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

NON-GAAP MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS (or "GAAP"). This MD&A contains the terms "adjusted funds flow", "adjusted funds flow per share", and "operating netback" which do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance.

Management uses adjusted funds flow to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt, if any. Adjusted funds flow is a non-GAAP measure and has been defined by the Company as cash flow from (used in) operating activities excluding the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. The Company also presents adjusted funds flow per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of net loss per share. Adjusted funds flow is reconciled from cash flow from (used in) operating activities under the heading "Adjusted Funds Flow".

Management considers operating netback an important measure as it demonstrates its profitability relative to current commodity prices. Operating netback, which is calculated as average unit sales price less royalties, production expenses, and transportation expenses, represents the cash margin for every barrel of oil equivalent sold. Operating netback per boe is reconciled to net income (loss) per boe under the heading "Operating Netback".

UPDATE

In Q4 2017, Leucrotta focused its efforts on the refinement of the completion techniques for the Lower Montney as well as starting to evaluate other Montney horizons on its land base.

Leucrotta increased the frac intensity to 51 fracs over a mile lateral on its previously released 9-33 well and continues to monitor the two higher intensity wells that have 41 and 51 fracs respectively. Based on data collected to date, Leucrotta believes higher intensity fracs will recover incremental reserves over that of previously drilled wells with lower frac intensity and have better economic returns despite higher capital. The next three step-out/delineation wells will be completed with higher intensity fracs to further prove this thesis.

From geological and other data collected, Leucrotta believes there is an oil resource in multiple zones through-out its land base. Leucrotta has drilled an Upper Montney well that it will evaluate during 2018 to potentially prove the presence of oil and commerciality of this zone. Other Montney zones above and below the Lower Montney will also be cored and evaluated for oil potential. If warranted, Leucrotta would complete existing vertical wells to gather additional data on these other potential Montney zones.

Leucrotta has continued to build out the infrastructure and tie-in previously tested wells. Production has continued to increase and operating costs have continued to decline. Although the primary driver of the business plan is to delineate and evaluate the Montney, the production and related cash flow are providing meaningful capital for reinvesting.

For 2018, Leucrotta plans to spend approximately \$33.0 million primarily on the delineation of the Lower Montney and related infrastructure. At the end of 2017, Leucrotta had approximately \$18.7 million of positive working capital, no debt, and a \$20.0 million undrawn bank credit facility. Leucrotta expects to be debt-free throughout 2018 based on its opening cash balance plus projected cash flow of \$15.0 million on estimated production of 3,600 boe/d.

We look forward to reporting on the results of the new wells and other business developments in the near future.

SUMMARY OF FINANCIAL RESULTS

(\$000s, except per share amounts)	Three Months Ended December 31			Year Ended December 31		
	2017	2016		2017	2016	2015
Oil and natural gas sales	9,586	2,281		26,844	8,844	10,859
Adjusted funds flow	4,462	(98)		9,602	(996)	615
Per share - basic and diluted	0.02	-		0.05	(0.01)	-
Net loss	(5,072)	(1,657)		(8,222)	(12,182)	11,412
Per share - basic and diluted	(0.03)	(0.01)		(0.04)	(0.07)	0.07
Total assets				313,041	241,635	253,038
Total long-term liabilities				8,718	6,820	6,673
Working capital				18,660	26,063	45,633

The Company experienced a substantial increase in oil and natural gas sales and adjusted funds flow for the three months and year ended December 31, 2017 compared to the same periods in 2016. This was mainly due to significant production growth from successful drilling at Doe/Mica in the Montney formation during 2016 and 2017 and an increase in oil and NGLs commodity prices. The increased production and commodity prices also affected the net loss for the three months and year ended December 31, 2017, however, these positive factors were offset by a \$6.2 million expense related to non-core exploration and evaluation ("E&E") assets in Q4 2017. The decrease in working capital is mainly the net result from capital expenditures of \$93.5 million during 2017 (see "Capital Expenditures") partially offset by the \$80.0 million financing in Q2 2017 (see "Liquidity and Capital Resources").

PRODUCTION	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	1,290	234	451	820	317	159
Natural gas (mcf/d)	15,071	3,543	325	12,268	4,325	184
Combined (boe/d)	3,802	824	361	2,865	1,038	176

Daily production increased substantially to 3,802 boe/d and 2,865 boe/d for the three months and year ended December 31, 2017, respectively, from 824 boe/d and 1,038 boe/d for the comparative periods in 2016. The increase in production was due to the tie-in of five previously drilled wells in Doe/Mica (8-18, 8-22, 8-4, A13-19, and A4-19) from 2016 and the drill and tie-in of Doe/Mica A8-22, 9-33 and 4-12 in 2017.

Leucrotta's production profile for the fourth quarter of 2017 saw an increase in liquids weighting over the comparative quarter in 2016. The Q4 2017 weighting was 66% natural gas (Q4 2016 - 72%) and 34% oil and NGLs (Q4 2016 - 28%). This was the result of new wells put on production in Q4 2017 being the Mica 9-33 light oil well and the Doe 4-12 liquids-rich gas well. The year ended December 31, 2016 had a slightly higher liquids weighting than 2017 due to flush production from new light oil wells at Mica and Stoddart on a much smaller production base in 2016. The 2017 weighting was 71% natural gas (December 31, 2016 - 69%) and 29% oil and NGLs (December 31, 2016 - 31%).

REVENUE (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and NGLs	7,313	1,152	535	17,011	5,209	227
Natural gas	2,273	1,129	101	9,833	3,635	171
Total	9,586	2,281	320	26,844	8,844	204
Average Sales Price						
Oil and NGLs (\$/bbl)	61.61	53.60	15	56.84	45.04	26
Natural gas (\$/mcf)	1.64	3.46	(53)	2.20	2.30	(4)
Combined (\$/boe)	27.41	30.08	(9)	25.67	23.35	10

Revenue increased substantially to \$9.6 million and \$26.8 million for the three months and year ended December 31, 2017, respectively, compared to \$2.3 million and \$8.8 million for the comparative periods in 2016. This was mainly due to significant production growth from successful drilling at Doe/Mica in the Montney formation during 2016 and 2017 and an increase in oil and NGLs commodity prices.

The following table outlines the Company's realized wellhead prices and industry benchmarks:

Commodity Pricing	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and NGLs						
Corporate price (\$CDN/bbl)	61.61	53.60	15	56.84	45.04	26
Canadian light sweet (\$CDN/bbl)	65.68	60.76	8	61.84	52.80	17
West Texas Intermediate ("WTI") (\$US/bbl)	55.40	49.29	12	50.95	43.32	18
Natural gas						
Corporate price (\$CDN/mcf)	1.64	3.46	(53)	2.20	2.30	(4)
AECO price (\$CDN/mcf)	1.72	3.11	(45)	2.20	2.18	1
Exchange rate						
\$US/\$CAD exchange rate	0.7871	0.7492	5	0.7712	0.7553	2

Differences between corporate and benchmark prices can be the result of quality differences (higher or lower API oil and higher or lower heat content natural gas), sour content, the mix of oil and NGLs, and various other factors. Leucrotta's differences are mainly the result of a higher proportion of lower priced NGLs.

The Company's corporate average oil and NGLs prices were 93.8% and 91.9% of Canadian light sweet prices for the three months and year ended December 31, 2017, respectively, compared to 88.2% and 85.3% for the comparative periods in 2016.

Corporate average natural gas prices were 95.3% and 100.0% of AECO prices for the three months and year ended December 31, 2017, respectively, down from 111.3% and 105.5% for the comparative periods in 2016.

Leucrotta's liquids mix during the fourth quarter of 2017 was approximately 77% light oil, condensate and pentanes, 7% butane and 16% propane which was consistent with Q4 2016.

Future prices received from the sale of the products may fluctuate as a result of market factors. In addition, the Company may enter into commodity price contracts to help manage future cash flows. The Company does not currently have any commodity price contracts outstanding.

ROYALTIES (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and NGLs	907	150	505	1,986	542	266
Natural gas	54	53	2	281	92	205
Total	961	203	373	2,267	634	258
Average Royalty Rate (% of sales)						
Oil and NGLs	12.4	13.0	(5)	11.7	10.4	13
Natural gas	2.4	4.7	(49)	2.9	2.5	16
Combined	10.0	8.9	12	8.4	7.2	17

The Company pays royalties to provincial governments (Crown), freeholders, which may be individuals or companies, and other oil and gas companies that own surface or mineral rights. Crown royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis, subject to a minimum and maximum rate restriction ascribed by the Crown. The provincial government has also enacted various royalty incentive programs that are available for wells that meet certain criteria, such as natural gas deep drilling, which can result in fluctuations in royalty rates.

For the fourth quarter of 2017, oil, NGLs, and natural gas royalties totaled \$1.0 million (10.0% of revenue) compared to \$0.2 million (8.9% of revenue) for the comparative quarter in 2016. For the year ended December 31, 2017, oil, NGLs, and natural gas royalties totaled \$2.3 million (8.4% of revenue) compared to \$0.6 million (7.2% of revenue) for 2016.

Oil and NGLs royalties have remained consistent at 12.4% and 11.7% for the three months and year ended December 31, 2017, respectively, compared to 13.0% and 10.4% in the comparative periods in 2016.

Natural gas royalties were 2.4% and 2.9% for the three months and year ended December 31, 2017, respectively, compared to 4.7% and 2.5% in the comparative periods in 2016. The annual rate in 2017 was consistent to 2016, while the fourth quarter of 2017 decreased over the same period in 2016 due to weaker natural gas prices.

PRODUCTION EXPENSES (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and NGLs	776	564	38	2,293	2,142	7
Natural gas	1,306	575	127	4,827	2,007	141
Total	2,082	1,139	83	7,120	4,149	72

Average expense						
Oil and NGLs (\$/bbl)	6.53	26.24	(75)	7.66	18.52	(59)
Natural gas (\$/mcf)	0.94	1.76	(47)	1.08	1.27	(15)
Combined (\$/boe)	5.95	15.02	(60)	6.81	10.96	(38)

Per unit production expenses decreased to \$5.95/boe and \$6.81/boe for the three months and year ended December 31, 2017, respectively, from \$15.02/boe and \$10.96/boe in the comparative periods in 2016. The large decrease was the result of increased production from successful drilling in 2016 and 2017 and the tie-in of those wells into the Company's Doe gas plant, gaining economies of scale over the larger production base.

TRANSPORTATION EXPENSES (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and NGLs	251	130	93	805	607	33
Natural gas	709	152	366	2,910	694	319
Total	960	282	240	3,715	1,301	186

Average expense						
Oil and NGLs (\$/bbl)	2.11	6.04	(65)	2.69	5.24	(49)
Natural gas (\$/mcf)	0.51	0.47	9	0.65	0.44	48
Combined (\$/boe)	2.75	3.71	(26)	3.55	3.43	3

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. Transportation costs were \$2.75/boe and \$3.55/boe for the three months and year ended December 31, 2017, respectively, compared to \$3.71/boe and \$3.43/boe for the comparative periods in 2016.

The year-to-date increase in natural gas transportation was mainly due to unutilized firm transportation for the first half of 2017. With new wells coming on-stream during the first half of 2017, the Company kept more firm transportation but those wells were tied-in later than originally expected. This issue was rectified in the second half of 2017 as the Company was able to predict timing of new wells being tied-in.

The decrease in oil and NGLs transportation for the three months and year ended December 31, 2017 was the result of different sales points and sales and transportation contracts for new production in Doe/Mica in 2017.

OPERATING NETBACK	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Oil and NGLs (\$/bbl)						
Revenue	61.61	53.60	15	56.84	45.04	26
Royalties	(7.64)	(6.99)	9	(6.63)	(4.69)	41
Production expenses	(6.53)	(26.24)	(75)	(7.66)	(18.52)	(59)
Transportation expenses	(2.11)	(6.04)	(65)	(2.69)	(5.24)	(49)
Operating netback	45.33	14.33	216	39.86	16.59	140

Natural gas (\$/mcf)						
Revenue	1.64	3.46	(53)	2.20	2.30	(4)
Royalties	(0.04)	(0.16)	(75)	(0.06)	(0.06)	-
Production expenses	(0.94)	(1.76)	(47)	(1.08)	(1.27)	(15)
Transportation expenses	(0.51)	(0.47)	9	(0.65)	(0.44)	48
Operating netback	0.15	1.07	(86)	0.41	0.53	(23)

Combined (\$/boe)						
Revenue	27.41	30.08	(9)	25.67	23.35	10
Royalties	(2.75)	(2.68)	3	(2.17)	(1.67)	30
Production expenses	(5.95)	(15.02)	(60)	(6.81)	(10.96)	(38)
Transportation expenses	(2.75)	(3.71)	(26)	(3.55)	(3.43)	3
Operating netback	15.96	8.67	84	13.14	7.29	80

During the three months and year ended December 31, 2017, Leucrotta generated an operating netback of \$15.96/boe and \$13.14/boe, respectively, up from \$8.67/boe and \$7.29/boe for the comparative periods in 2016. The increase in Q4 2017 from Q4 2016 was mainly due to significantly lower production expenses and transportation expenses per boe as well as higher oil and NGLs pricing, which were

partially offset by lower natural gas prices. Year-to-date, the increase in 2017 was mainly due to substantially higher oil and NGLs pricing and lower production expenses per boe.

The following is a reconciliation of operating netback per boe to net loss per boe for the periods noted:

(\$/boe)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Operating netback	15.96	8.67	84	13.14	7.29	80
Depletion and depreciation	(9.21)	(13.07)	(30)	(9.77)	(13.07)	(25)
Exploration and evaluation	(17.84)	-	100	(5.97)	-	100
General and administrative expenses	(3.45)	(11.08)	(69)	(4.32)	(11.11)	(61)
Share based compensation	(1.05)	(7.11)	(85)	(1.49)	(9.36)	(84)
Finance expenses	(0.32)	(0.81)	(60)	(0.27)	(0.49)	(45)
Finance income	0.42	1.54	(73)	0.48	1.35	(64)
Loss on sale of assets	(1.40)	-	100	(0.47)	(6.77)	(93)
Deferred income tax recovery	2.38	-	100	0.80	-	100
Net loss (GAAP)	(14.51)	(21.86)	(34)	(7.87)	(32.16)	(76)

DEPLETION AND DEPRECIATION	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Depletion and depreciation (\$000s)	3,222	991	225	10,212	4,951	106
Depletion and depreciation (\$/boe)	9.21	13.07	(30)	9.77	13.07	(25)

The Company calculates depletion on property, plant, and equipment mainly based on proved plus probable reserves. Some facilities in Stoddart and certain gas plant equipment, where the production and reserves do not represent the useful life of the assets, are depreciated over twenty years. Depletion and depreciation for the three months and year ended December 31, 2017 was \$9.21/boe and \$9.77/boe, respectively, down from \$13.07/boe for the comparative periods in 2016. The decrease in 2017 was the result of successful drilling results adding proved plus probable reserves to the Company's reserve base at Mica and Doe.

IMPAIRMENT OF ASSETS AND EXPLORATION AND EVALUATION EXPENSE

At December 31, 2017 and 2016, the Company evaluated its property, plant, and equipment CGUs for indicators of impairment or impairment reversals and as a result of this assessment, management determined that an impairment test was not required to be performed.

The Company recognized an expense of \$6.2 million comprised of drilling and completion costs incurred for an exploratory well in the non-Montney CGU that was uneconomic and no further expenditures are planned.

GENERAL AND ADMINISTRATIVE (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
G&A expenses (gross)	1,411	1,119	26	5,227	4,725	11
G&A capitalized	(203)	(259)	(22)	(775)	(413)	88
G&A recoveries	(1)	(20)	(95)	68	(106)	(164)
G&A expenses (net)	1,207	840	44	4,520	4,206	7
G&A expenses (\$/boe)	3.45	11.08	(69)	4.32	11.11	(61)

General and administrative expenses ("G&A") were \$3.45/boe and \$4.32/boe for the three months and year ended December 31, 2017, respectively, down from \$11.08/boe and \$11.11/boe for the comparative periods in 2016. G&A expenses in the year ended December 31, 2017 were consistent with 2016 but decreased substantially on a per boe basis due to increased production in 2017.

SHARE BASED COMPENSATION	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Share based compensation (\$000s)	367	539	(32)	1,554	3,546	(56)
Share based compensation (\$/boe)	1.05	7.11	(85)	1.49	9.36	(84)

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus. The fair value of the performance warrants was determined based on a Monte Carlo simulation and the fair value of stock options and purchase warrants was measured based on the Black-Scholes-Merton option-pricing model.

Share based compensation expense decreased to \$0.4 million (\$1.05/boe) for the fourth quarter of 2017 from \$0.5 million (\$7.11/boe) for the comparative quarter in 2016. Share based compensation expense decreased to \$1.6 million (\$1.49/boe) for the year ended December 31, 2017 from \$3.5 million (\$9.36/boe) in 2016. The decrease in expense is mainly due to using the graded (accelerated) amortization method whereby more expense is recognized earlier in the stock options and warrants expected life. On a per boe basis, the decrease was more pronounced due to the increase in production during 2017. During the year ended December 31, 2017, 2.6 million (December 31, 2016 - 25 thousand) stock options were granted.

FINANCE EXPENSES (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Interest expense	61	32	91	125	60	108
Accretion of decommissioning obligations	49	29	69	162	126	29
Finance expenses	110	61	80	287	186	54
Finance expenses (\$/boe)	0.32	0.81	(60)	0.27	0.49	(45)

Interest expense increased during the three months and year ended December 31, 2017 compared to the same periods in 2016 due to the increase of the Company's undrawn credit facility in 2017 which has increased the standby fees charged.

Accretion expense has increased for the three months and year ended December 31, 2017 compared to the same periods in 2016 due to drilling activity adding more wells.

FINANCE INCOME

Finance income relates to interest earned on cash in the bank. For the three months and year ended December 31, 2017, finance income totaled \$0.1 million and \$0.5 million, respectively, consistent with \$0.1 million and \$0.5 million for the comparative periods in 2016.

LOSS ON SALE OF ASSETS

During the three months and year ended December 31, 2017, the Company sold certain gas plant equipment for cash proceeds of \$1.1 million and realized a loss of \$0.7 million on the disposition. The Company also disposed of a non-producing property for \$nil consideration and realized a gain on disposition of \$0.2 million as the book value of the properties disposed were in net liability position of \$0.2 million due to the associated decommissioning obligations.

During the year ended December 31, 2016, the Company sold certain gas plant equipment for cash proceeds of \$4.0 million and realized a loss of \$2.6 million on the disposition.

DEFERRED INCOME TAXES

The deferred income tax recovery of \$0.8 million for the three months and year ended December 31, 2017 relates to the premium on the flow-through shares issued as the Company had incurred the entire amount with respect to qualifying Canadian exploration expenditures (see "Liquidity and Capital Resources").

The Company has not realized the net deferred income tax asset based on the independently evaluated reserve report as cash flows are not expected to be sufficient to realize the deferred income tax asset at this time.

At December 31, 2017, the Company has estimated federal tax pools of \$304.4 million (December 31, 2016 - \$221.9 million) available for deduction against future taxable income.

ADJUSTED FUNDS FLOW

The following is a reconciliation of cash flow from (used in) operating activities to adjusted funds flow for the periods noted:

(\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Cash flow from (used in) operating activities	3,294	(945)	(449)	8,311	(328)	(2,634)
Add back (deduct):						
Decommissioning expenditures	296	-	100	296	-	100
Change in non-cash working capital	872	847	3	995	(668)	(249)
Adjusted funds flow (non-GAAP)	4,462	(98)	(4,653)	9,602	(996)	(1,064)

Adjusted funds flow for the fourth quarter of 2017 was \$4.5 million (\$0.02 per basic and diluted share) compared to negative adjusted funds flow of \$0.1 million (\$nil per basic and diluted share) for the comparative quarter in 2016. For the year ended December 31, 2017, adjusted funds flow was \$9.6 million (\$0.05 per basic and diluted share) compared to negative adjusted funds flow of \$1.0 million (\$0.01 per basic and diluted share) in 2016. The significant increase for the three months and year ended December 31, 2017 was mainly due to the increased production from successful drilling over the past two years. Production, transportation and G&A expenses are all trending lower on a per boe basis from prior quarters.

Cash flow from operations increased for the three months and year ended December 31, 2017 to \$3.3 million (\$0.02 per basic and diluted share) and \$8.3 million (\$0.04 per basic and diluted share), respectively, from cash used in operations of \$0.9 million (\$0.01 per basic and diluted share) and \$0.3 million (\$nil per basic and diluted share) for the comparative periods in 2016. Consistent with adjusted funds flow, the increase was mainly due to the increased production from successful drilling over the past two years. Cash flow from operating activities differs from adjusted funds flow due to the inclusion of changes in non-cash working capital and decommissioning expenditures.

NET LOSS

The Company sustained net losses of \$5.1 million and \$8.2 million for the three months and year ended December 31, 2017, respectively, compared to \$1.7 million and \$12.2 million for the comparative periods in 2016.

The decrease in net loss for the year ended December 31, 2017 was the result of increased production from successful drilling over the past two years and higher oil and NGLs commodity pricing in 2017. Production expenses, transportation expenses, G&A expenses, depletion and depreciation, and share based compensation are all trending lower on a per boe basis from prior quarters. These positive factors were offset by a \$6.2 million expense on non-core E&E assets in Q4 2017, which resulted in an increased net loss for Q4 2017 over Q4 2016.

CAPITAL EXPENDITURES (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2017	2016	% Change	2017	2016	% Change
Property acquisitions	-	500	(100)	35,550	4,034	781
Land	295	188	57	1,812	847	114
Drilling, completions, and workovers	11,646	6,619	76	34,831	7,658	355
Equipment	3,843	4,318	(11)	20,438	9,643	112
Geological and geophysical	86	93	(8)	883	392	125
Total expenditures	15,870	11,718	35	93,514	22,574	314
Sale of gas plant equipment	1,100	-	100	1,100	4,000	(73)

During the year ended December 31, 2017, the Company completed its Mica 12-06 well and drilled and completed Mica A8-22, Mica 9-33 and Doe 4-12. The Company also completed its infrastructure project to tie-in five previously drilled wells in Doe/Mica (8-18, 8-22, 8-4, A13-19, and A4-19) and drilled an exploratory well at Stoddart and at Two Rivers, north of the Peace River. The Company also had net property acquisitions of \$35.6 million in Q2 2017. Net assets acquired were undeveloped land in the Company's core Doe/Mica area, adding to the land inventory of this area with a focus on the Montney formation. There were no reserves attached to any of the net acquisition lands.

During the year ended December 31, 2016, the Company added Montney acreage adjacent to its Montney land base through both Crown land sales and private land acquisitions and began the pipeline system and infrastructure required to tie-in previously drilled wells to the Company's Doe gas plant. Other capital expenditures during that period were kept to a minimum due to the low oil and natural gas commodity prices and the Company's preference at that time to preserve its positive cash balance.

LIQUIDITY AND CAPITAL RESOURCES

Management uses working capital as a measure to assess the Company's financial position and is reconciled as follows:

(\$000s)	December 31, 2017	December 31, 2016	% Change
Current assets	29,224	35,714	(18)
Less:			
Current liabilities	(10,564)	(9,651)	9
Working capital	18,660	26,063	(28)

At December 31, 2017, the Company had working capital of \$18.7 million and \$nil had been drawn on the revolving credit facility.

The Company has a \$20.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a \$100 million fixed and floating charge debenture on the assets of the Company. The undrawn portion of the credit facility is subject to a standby fee in the range of 0.20% to 0.45%. At December 31, 2017, \$nil had been drawn on the revolving credit facility. At December 31, 2017, the Company had outstanding letters of guarantee of \$2.5 million which reduce the amount that can be borrowed under the credit facility. The next review of the revolving credit facility by the bank is scheduled on or before May 31, 2018.

On April 26, 2017, the Company closed a bought-deal public financing for an aggregate of 33,333,400 common shares at a price of \$2.25 per common share and 1,852,000 common shares on a flow-through basis at a price of \$2.70 per flow-through common share for total gross proceeds of \$80.0 million. The Company incurred the required Canadian exploration expenditures of \$5.0 million related to the flow-through shares during the year ended December 31, 2017. The proceeds of the financing were used to fund the aforementioned net property acquisitions and the Company's 2017 capital program.

The Company has \$1.0 million in a restricted corporate account to cross-guarantee a margin account for the President of the Company. The President is charged a fee by the Company and the margin account is also restricted until the cross-guarantee is removed. The margin account holds \$6.6 million of securities of Leucrotta common shares and a margin payable of \$1.5 million. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. The cross-guarantee has allowed the President to comply with corporate governance mandates. The \$1.0 million has been segregated on the statement of financial position as restricted cash at December 31, 2017.

Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of its cash balance, cash flow, equity, and debt if required. Leucrotta's capital program is flexible and can be adjusted as needed based upon the current economic environment. The Company will continue to monitor the economic environment and the possible impact on its business and strategy and will make adjustments as necessary.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations and commitments at December 31, 2017:

(\$000s)	Total	Less than One Year	One to Three Years	After Three Years
Accounts payable and accrued liabilities	10,564	10,564	-	-
Decommissioning obligations	8,718	60	-	8,658
Office lease	1,311	404	640	267
Firm transportation agreements	18,990	4,667	14,323	-
Total contractual obligations	39,583	15,695	14,963	8,925

Transportation commitments include contracts to transport natural gas and NGLs through third-party owned pipeline systems. The Company currently has commitments of 18.3 mmcf/d escalating over time to 33.3 mmcf/d.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in production expenses or general and administrative expenses depending on the nature of the lease.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. The voting common shares of the Company commenced trading on the TSXV on August 19, 2014 under the symbol "LXE". The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from options, warrants, and other instruments:

(000s)	December 31, 2017	April 23, 2018
Voting common shares	200,497	200,517
Warrants	15,141	15,141
Stock options	11,470	11,475
Total	227,108	227,133

SUMMARY OF QUARTERLY RESULTS

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Average Daily Production								
Oil and NGLs (bbls/d)	1,290	857	609	514	234	300	319	412
Natural gas (mcf/d)	15,071	13,593	12,122	8,197	3,543	4,138	4,549	5,031
Combined (boe/d)	3,802	3,123	2,629	1,881	824	989	1,078	1,251
(\$000s, except per share amounts)								
Oil and natural gas sales	9,586	5,908	6,467	4,883	2,281	2,309	1,953	2,301
Adjusted funds flow	4,462	1,747	2,097	1,296	(98)	(124)	(491)	(283)
Per share - basic and diluted	0.02	0.01	0.01	0.01	-	-	-	-
Net loss	(5,072)	(1,549)	(723)	(878)	(1,657)	(4,994)	(2,758)	(2,773)
Per share - basic and diluted	(0.03)	(0.01)	-	(0.01)	(0.01)	(0.03)	(0.02)	(0.02)

Production, oil and natural gas sales and adjusted funds flow increased significantly in each quarter of 2017 from the successful drilling at Doe/Mica in the Montney formation. The increased loss in Q3 2016 from Q2 2016 was the result of a loss on the sale of certain gas plant equipment of \$2.6 million. The increased loss in Q4 2017 from Q3 2017 was the result of a \$6.2 million expense related to non-core E&E assets.

NEW STANDARDS NOT YET ADOPTED

In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers, which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, and other revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has substantially completed its review of its revenue streams and underlying contracts with customers and has determined that the adoption of the standard is not expected to have a material impact on the Company's earnings. The adoption of IFRS 15 will result in expanded disclosures in the Company's financial statements.

On July 24, 2014, the IASB issued the complete IFRS 9 Financial Instruments standard to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The standard introduces new requirements for classifying and measuring financial instruments and includes a new general hedge accounting standard that will provide more risk management strategies to qualify for hedge accounting. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company has determined the IFRS 9 will not have a material impact on the measurement and carrying values of the Company's financial instruments.

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company is currently identifying contracts that will fall into the scope of the new standard and is evaluating the impact it will have on the financial statements.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates, judgments, and assumptions in the application of IFRS that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended. Certain of these estimates may change from period to period resulting in a material impact on the Company's results from operations and financial position (see note 2d in the notes to the Company's financial statements for full descriptions of the use of estimates and judgments).

RISK ASSESSMENT

The acquisition, exploration, and development of oil and natural gas properties involves many risks common to all participants in the oil and natural gas industry. Leucrotta's exploration and development activities are subject to various business risks such as unstable commodity prices, interest rate and foreign exchange fluctuations, the uncertainty of replacing production and reserves on an economic basis, government regulations, taxes, and safety and environmental concerns. While management realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks.

Reserves and reserve replacement

The recovery and reserve estimates on Leucrotta's properties are estimates only and the actual reserves may be materially different from that estimated. The estimates of reserve values are based on a number of variables including price forecasts, projected production volumes and future production and capital costs. All of these factors may cause estimates to vary from actual results.

Leucrotta's future oil and natural gas reserves, production, and funds from operations to be derived therefrom are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Leucrotta's reserves will depend on its abilities to acquire suitable prospects or properties and discover new reserves.

To mitigate this risk, Leucrotta has assembled a team of experienced technical professionals who have expertise operating and exploring in areas the Company has identified as being the most prospective for increasing reserves on an economic basis. To further mitigate reserve replacement risk, Leucrotta has targeted a majority of its prospects in areas which have multi-zone potential, year-round access, and lower drilling costs and employs advanced geological and geophysical techniques to increase the likelihood of finding additional reserves.

Operational risks

Leucrotta's operations are subject to the risks normally incidental to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells. Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors. As required under the terms of the Company's credit facility, the Company is subject to an upper limit on fixed price contracts of 65% of its future production up to a three year period.

Foreign exchange risk

The prices received by the Company for the production of oil, natural gas, and NGLs are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company currently does not have any foreign exchange contracts in place.

Interest rate risk

The Company is exposed to interest rate risk when it borrows funds at floating interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The amount drawn on the Company's credit facility at December 31, 2017 was \$nil.

Commodity price risk

Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. In addition, the Company may enter into commodity price contracts to manage future cash flows. At December 31, 2017, the Company did not have any commodity price contracts outstanding.

Credit risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers and joint interest partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint interest partners.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its oil and natural gas marketers. Joint interest receivables are typically collected within one to three months of the joint interest billing being issued to the partner. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval for significant capital expenditures prior to the expenditure being incurred. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, in certain circumstances, the Company may cash call a partner in advance of expenditures being incurred.

The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents, restricted cash, and accounts receivable on the statement of financial position. At December 31, 2017, \$3.2 million (78%) of the Company's outstanding accounts receivable were current and \$0.3 million (8%) were outstanding for more than 90 days. During the year ended December 31, 2017, the Company deemed \$0.1 million of outstanding accounts receivable to be uncollectable (December 31, 2016 - \$nil).

Cash and cash equivalents consists of bank balances placed with a financial institution with strong investment grade ratings which management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it has access to additional financing, including potential equity issuances and additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The Company has a working capital balance of \$18.7 million including \$23.7 million of cash. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of its cash balance, cash flow, equity, and debt if required.

Safety and Environmental Risks

The oil and natural gas business is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with oil and natural gas operations. Leucrotta is committed to meeting and exceeding its environmental and safety responsibilities. Leucrotta has implemented an environmental and safety policy that is designed, at a minimum, to comply with current governmental regulations set for the oil and natural gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions. Environmental and safety updates are presented and discussed at each Board of Directors meeting. Leucrotta maintains adequate insurance commensurate with industry standards to cover reasonable risks and potential liabilities associated with its activities as well as insurance coverage for officers and directors executing their corporate duties. To the knowledge of management, there are no legal proceedings to which Leucrotta is a party or of which any of its property is the subject matter, nor are any such proceedings known to Leucrotta to be contemplated.

FORWARD-LOOKING INFORMATION

This document contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "should", "believe", "intends", "forecast", "plans", "guidance" and similar expressions are intended to identify forward-looking statements or information.

More particularly and without limitation, this MD&A contains forward-looking statements and information relating to the Company's risk management program, oil, NGLs, and natural gas production, capital programs, oil, NGLs, and natural gas commodity prices, cash flow and working capital. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities, and the availability and cost of labour and services.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs, and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty, and environmental legislation. The forward-looking statements and information contained in this document are made as of the date hereof for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

ADDITIONAL INFORMATION

Additional information related to the Company may be found on the SEDAR website at www.sedar.com.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Leucrotta Exploration Inc.

We have audited the accompanying financial statements of Leucrotta Exploration Inc., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of operations and comprehensive loss, 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 Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Leucrotta Exploration Inc. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

April 23, 2018
Calgary, Canada

Leucrotta Exploration Inc.
Statements of Financial Position

(\$000s)	Note	December 31 2017	December 31 2016
Assets			
Current assets			
Cash and cash equivalents		23,747	32,997
Restricted cash	(4)	1,000	1,000
Accounts receivable		4,104	1,518
Prepaid expenses and deposits		373	199
		29,224	35,714
Property, plant, and equipment	(6)	156,395	117,381
Exploration and evaluation assets	(7)	127,422	88,540
		283,817	205,921
		313,041	241,635
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		10,564	9,651
Decommissioning obligations	(9)	8,718	6,820
		19,282	16,471
Shareholders' Equity			
Shareholders' capital	(10)	288,787	213,875
Contributed surplus		14,398	12,493
Deficit		(9,426)	(1,204)
		293,759	225,164
		313,041	241,635

Commitments (21)

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

Approved on behalf of the Board of Directors



Rob Zakresky
Director



Tom Medvedic
Director

Leucrotta Exploration Inc.
Statements of Operations and Comprehensive Loss

(\$000s, except per share amounts)	Note	Years Ended December 31	
		2017	2016
Revenue			
Oil and natural gas sales		26,844	8,844
Royalties		(2,267)	(634)
		24,577	8,210
Expenses			
Production		7,120	4,149
Transportation		3,715	1,301
Depletion and depreciation	(6)	10,212	4,951
Exploration and evaluation	(7)	6,240	-
General and administrative		4,520	4,206
Share based compensation	(11)	1,554	3,546
Loss on sale of assets	(5)	489	2,563
Finance income		(505)	(510)
Finance expense	(14)	287	186
		33,632	20,392
Loss before taxes		(9,055)	(12,182)
Taxes			
Deferred income tax recovery	(15)	833	-
Net loss and comprehensive loss		(8,222)	(12,182)
Net loss per share			
Basic and diluted	(12)	(0.04)	(0.07)

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

Leucrotta Exploration Inc.
Statements of Shareholders' Equity

(\$000s)	Shareholders' Capital	Contributed Surplus	Reserve from common-control transaction	Retained Earnings (Deficit)	Total Equity
Balance, December 31, 2015	283,587	8,405	(69,712)	10,978	233,258
Net loss	-	-	-	(12,182)	(12,182)
Share based compensation	-	4,088	-	-	4,088
Reclassification	(69,712)	-	69,712	-	-
Balance, December 31, 2016	213,875	12,493	-	(1,204)	225,164
Balance, December 31, 2016	213,875	12,493	-	(1,204)	225,164
Net loss	-	-	-	(8,222)	(8,222)
Issue of shares (net of share issue costs and flow-through share premium)	74,774	-	-	-	74,774
Exercise of warrants and stock options	138	(40)	-	-	98
Share based compensation	-	1,945	-	-	1,945
Balance, December 31, 2017	288,787	14,398	-	(9,426)	293,759

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

Leucrotta Exploration Inc.
Statements of Cash Flows

(\$000s)	Note	Years Ended December 31	
		2017	2016
Operating Activities			
Net loss		(8,222)	(12,182)
Depletion and depreciation	(6)	10,212	4,951
Exploration and evaluation	(7)	6,240	-
Share based compensation	(11)	1,554	3,546
Finance expense	(14)	287	186
Interest paid	(14)	(125)	(60)
Loss on sale of assets	(5)	489	2,563
Deferred income tax recovery	(15)	(833)	-
Decommissioning expenditures	(9)	(296)	-
Change in non-cash working capital	(20)	(995)	668
		8,311	(328)
Financing Activities			
Issue of shares		80,001	-
Share issue costs		(4,394)	-
Exercise of warrants and stock options		98	-
		75,705	-
Investing Activities			
Capital expenditures - property, plant, and equipment	(6)	(27,682)	(10,190)
Capital expenditures - exploration and evaluation assets	(7)	(30,282)	(8,350)
Property acquisitions	(5,7)	(35,550)	(4,034)
Disposition of oil and natural gas properties and equipment	(5)	1,100	4,000
Change in non-cash working capital	(20)	(852)	(1,905)
		(93,266)	(20,479)
Change in cash and cash equivalents		(9,250)	(20,807)
Cash and cash equivalents, beginning of year		32,997	53,804
Cash and cash equivalents, end of year		23,747	32,997

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

Leucrotta Exploration Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and December 31, 2016

(Tabular amounts in 000s, unless otherwise stated)

1. REPORTING ENTITY

Leucrotta Exploration Inc. (“Leucrotta” or the “Company”) is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in northeastern British Columbia, Canada. Leucrotta was incorporated in Alberta, Canada under the Business Corporations Act (Alberta) on June 10, 2014 under the name of 1828073 Alberta Ltd., and subsequently changed its name to Leucrotta Exploration Inc. on July 15, 2014. The Company commenced trading on the TSX Venture Exchange (“TSXV”) on August 19, 2014 under the symbol “LXE”.

The Company conducts many of its activities jointly with others and these financial statements reflect only the Company’s proportionate interest in such activities.

The Company’s place of business is located at 700, 639 – 5th Avenue SW, Calgary, Alberta, Canada, T2P 0M9.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements were authorized for issuance by the Board of Directors on April 23, 2018.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur.

Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of acquisition. In determining the fair value of the assets and liabilities, the Company is often required to make assumptions and estimates, such as reserves, future commodity prices, fair value of undeveloped land, discount rates, decommissioning obligations and possible outcome of any assumed contingencies.

Cash-generating units (“CGU”)

The Company’s assets are aggregated into CGUs for the purposes of calculating impairment. CGUs are determined based on the smallest group of assets that generate cash inflows independent of other assets or groups of assets. Determination of CGUs is subject to the Company’s judgment and is based on geographical proximity, shared infrastructure, similar exposure to market risk, materiality, and the way in which management monitors the Company’s operations. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Impairment

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

- (i) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- (ii) Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.

- (iii) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of a discount rate specific to the risk of the CGU being assessed for impairment. Changes in the general economic environment could result in significant changes to this estimate.

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires the Company 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.

Depletion and depreciation

Amounts recorded for depletion and depreciation are based on estimates of total proved and probable oil and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs, and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

Decommissioning obligations

Amounts recorded for decommissioning obligations requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Share based compensation

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate value will be using pricing models such as the Black-Scholes-Merton model and Monte Carlo simulations, both of which are based on significant assumptions such as volatility, expected term, and forfeiture rate.

Deferred taxes

Deferred taxes are based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates, and the likelihood of assets being realized. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Judgments are also required to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

(a) Joint arrangements

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions (being those that significantly affect the returns of the arrangement). A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets. For a joint operation the financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the arrangement with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. Joint ventures are accounted for using the equity method of accounting and recognized at cost and adjusted thereafter for the post-acquisition change in the Company's share of the joint venture's net assets. Many of the Company's oil and natural gas activities involve joint operations. The Company has no arrangements classified as joint ventures.

(b) Financial instruments

Non-derivative financial instruments

The Company's financial instruments comprise cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and credit facility, all of which are measured at amortized cost. Financial instruments at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, financial instruments at amortized cost are measured using the effective interest method, less any impairment losses.

Cash and cash equivalents and restricted cash

Cash and cash equivalents and restricted cash comprise cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, measured at amortized cost. Any transaction costs are recognized in profit or loss as incurred. As at December 31, 2017 and 2016 cash and cash equivalents was comprised of cash in bank.

Financial assets and liabilities are offset and the net amount presented on the statement of financial position if, and only if, the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments

From time to time, the Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company does not designate financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are measured at fair value, with changes therein recognized in profit or loss. Transaction costs are recognized in profit or loss when incurred.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(c) Property, plant, and equipment and exploration and evaluation assets

Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs, are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved or probable reserves are found, the accumulated costs and associated undeveloped land are transferred to property, plant, and equipment. The exploration and evaluation costs are reviewed for impairment prior to any such transfer.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and are transferred to property, plant, and equipment, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to their respective CGUs.

Development and production costs

Items of property, plant, and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the well; facility costs; the cost of recognizing provisions for future restoration and decommissioning obligations; geological and geophysical costs; and directly attributable overhead.

Development and production assets are grouped into CGUs for impairment testing. The Company currently has two CGUs both being located in Northeast BC, one being the Company's Montney assets and the other being its non-Montney assets.

When significant parts of an item of property, plant, and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant, and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant, and equipment and are recognized in profit or loss. The carrying amount of any replaced or disposed item of property, plant, and equipment is derecognized.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant, and equipment are recognized as property, plant, and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. Capitalized property, plant, and equipment generally represent costs incurred in developing proved or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The costs of the day-to-day servicing of property, plant, and equipment are recognized in production expenses as incurred.

Non-monetary asset swaps

Exchanges or swaps of property, plant, and equipment are measured at fair value unless the exchange transaction lacks commercial substance or neither the fair value of the assets given up nor the assets received can 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 clearly evident. 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 derecognition of the asset given up is included in profit or loss. Exchanges or parts of exchanges that involve principally exploration and evaluation assets are measured at the carrying amount of the asset exchanged, reduced by the amount of any cash consideration received. No gain or loss is recognized unless the cash consideration received exceeds the carrying value of the asset held.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account the estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated at least annually by independent qualified reserve evaluators and represent the estimated quantities of oil, natural gas, and natural gas liquids which geological, geophysical, and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

The Company has determined the estimated useful lives for most gas processing plants, pipeline facilities, and compression facilities to be consistent with the reserve lives of the areas for which they serve. As such, the Company includes the cost of these assets within their associated CGU for the purpose of depletion using the unit of production method. Some facilities, where the production and reserves do not represent the useful life of the assets, are depreciated over an estimated useful life of twenty years.

The cost of office and other equipment is depreciated using the straight-line method over the estimated useful life of three years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and, if necessary, changes are accounted for prospectively.

Leased assets

Leases wherein the Company assumes substantially all the risks and rewards of ownership are classified as finance leases, when applicable. 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 classified as operating leases, which are not recognized on the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. The Company's presently outstanding leases (primarily the head office lease) have been determined to be operating leases.

(d) Impairment

Financial assets

A financial asset is 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.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant, and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (a cash-generating unit or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less costs of disposal is determined to be the amount for which the asset could be sold in an arm's length transaction. In determining fair value less costs of disposal, discounted cash flows and recent market transactions are taken into account. These calculations are corroborated by valuation multiples or other available fair value indicators.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted using geological, production, recovery, and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the CGUs on a pro rata basis. Impairment losses recognized in prior periods are assessed each reporting date if facts or circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(e) Business combinations

Transactions for the purchase of assets, where the assets acquired are deemed to constitute a business, are accounted for as business combinations. Using the acquisition method, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Transaction costs related to the acquisition are expensed as incurred.

(f) Share based compensation

The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options and warrants is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to share capital.

(g) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event that can be estimated with reasonable certainty. Provisions are measured by estimating the cash flows that the Company would pay to be relieved of the obligation. To the extent that provisions are estimated using a present value technique, such amounts are determined by discounting the estimated future cash flows at a risk-free pre-tax rate. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. A provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. The capitalized amount is depreciated on a unit of production basis over the life of the associated proved plus probable reserves. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and changes in the risk-free rate. The increase in the provision due to the passage of time is recognized as accretion (within finance expenses) whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party.

(i) Finance income and expense

Finance income and expense comprises interest expense, including interest on credit facility, accretion on decommissioning obligations, and interest income earned on cash in the bank.

(j) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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 by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, 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.

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Per share amounts

Basic per share amounts are calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the weighted average number of common shares outstanding during the period for the effects of dilutive instruments such as stock options granted.

(l) Flow-through shares

The Company, from time to time, may issue flow-through shares to finance a portion of its exploration capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the exploration expenditures are renounced to the subscribers. On issuance of flow-through shares, the premium received on such shares, being the difference between the fair value ascribed to flow-through shares issued and the fair value that would have been received for common shares with no tax attributes, is recognized as a liability on the statement of financial position. When the exploration expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the foregone tax benefits, and the difference is recognized in profit or loss.

(m) New standards and interpretations not yet adopted

In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers, which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, and other revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has substantially completed its review of its revenue streams and underlying contracts with customers and has determined that the adoption of the standard is not expected to have a material impact on the Company's earnings. The adoption of IFRS 15 will result in expanded disclosures in the Company's financial statements.

On July 24, 2014, the IASB issued the complete IFRS 9 Financial Instruments standard to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The standard introduces new requirements for classifying and measuring financial instruments and includes a new general hedge accounting standard that will provide more risk management strategies to qualify for hedge accounting. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company has determined the IFRS 9 will not have a material impact on the measurement and carrying values of the Company's financial instruments.

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company is currently identifying contracts that will fall into the scope of the new standard and is evaluating the impact it will have on the financial statements.

4. RESTRICTED CASH

At December 31, 2017, the Company has \$1.0 million (December 31, 2016 - \$1.0 million) in a restricted corporate account to cross-guarantee a margin account for the President of the Company. The President is charged a fee by the Company and the margin account is also restricted until the cross-guarantee is removed. The margin account holds \$6.6 million of securities of Leucrotta common shares and a margin payable of \$1.5 million. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. The cross-guarantee has allowed the President to comply with corporate governance mandates.

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

a) Property acquisitions

During the year ended December 31, 2017, the Company closed three property acquisitions for total cash consideration of \$35.6 million (December 31, 2016 – three property acquisitions for \$4.0 million). Net assets acquired were undeveloped land in the Company's core area of Northeast BC adding to the Company's undeveloped land inventory in the area with a focus on the Montney formation.

b) Equipment disposition

During the year ended December 31, 2017, the Company sold certain gas plant equipment for cash proceeds of \$1.1 million (December 31, 2016 - \$4.0 million) and realized a loss of \$0.7 million on the disposition (December 31, 2016 - \$2.6 million).

c) Property disposition

During the year ended December 31, 2017, the Company disposed of a non-producing property for \$nil consideration. The Company realized a gain on disposition of \$0.2 million related to the net liability disposed of being \$0.2 million of decommissioning obligations.

6. PROPERTY, PLANT, AND EQUIPMENT

Cost	Total
Balance, December 31, 2015	129,411
Additions	10,190
Dispositions	(6,563)
Transfer from exploration and evaluation assets	10,086
Change in decommissioning obligations	21
Capitalized share based compensation	45
Balance, December 31, 2016	143,190
Additions	27,682
Dispositions	(2,166)
Transfer from exploration and evaluation assets	20,911
Change in decommissioning obligations	2,271
Capitalized share based compensation	190
Balance, December 31, 2017	192,078
Accumulated Depletion, Depreciation, and Impairment	Total
Balance, December 31, 2015	20,858
Depletion and depreciation	4,951
Balance, December 31, 2016	25,809
Depletion and depreciation	10,212
Dispositions	(338)
Balance, December 31, 2017	35,683
Net Book Value	Total
December 31, 2016	117,381
December 31, 2017	156,395

During the year ended December 31, 2017, approximately \$0.5 million (December 31, 2016 - \$0.1 million) of directly attributable general and administrative costs were capitalized as expenditures on property, plant, and equipment.

Depletion and depreciation

The calculation of depletion and depreciation expense for the year ended December 31, 2017 included an estimated \$167.6 million (December 31, 2016 - \$95.7 million) for future development costs associated with proved plus probable undeveloped reserves and excluded approximately \$3.7 million (December 31, 2016 - \$2.8 million) for the estimated salvage value of production equipment and facilities.

Impairment

At December 31, 2017 and 2016, the Company evaluated its property, plant, and equipment CGUs for indicators of impairment or impairment reversals and as a result of this assessment management determined that an impairment test was not required to be performed.

7. EXPLORATION AND EVALUATION ASSETS

	Total
Balance, December 31, 2015	85,745
Property acquisitions	4,034
Additions	8,350
Transfer to property, plant, and equipment	(10,086)
Capitalized share based compensation	497
Balance, December 31, 2016	88,540
Property acquisitions	35,550
Additions	30,282
Transfer to property, plant, and equipment	(20,911)
Expensed	(6,240)
Capitalized share based compensation	201
Balance, December 31, 2017	127,422

Exploration and evaluation assets ("E&E") consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period, consisting primarily of undeveloped land and drilling costs until the drilling of the well is complete and the results have been evaluated.

During the year ended December 31, 2017, approximately \$0.3 million (December 31, 2016 - \$0.3 million) of directly attributable general and administrative costs were capitalized as expenditures on exploration and evaluation assets.

The Company expensed \$6.2 million of drilling and completion costs incurred for an exploratory well in the non-Montney CGU that was uneconomic and no further expenditures are planned.

8. CREDIT FACILITY

The Company has a \$20.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a \$100 million fixed and floating charge debenture on the assets of the Company. The undrawn portion of the credit facility is subject to a standby fee in the range of 0.20% to 0.45%. At December 31, 2017, \$nil had been drawn on the revolving credit facility. At December 31, 2017, the Company had outstanding letters of guarantee of \$2.5 million which reduce the amount that can be borrowed under the credit facility. The next review of the revolving credit facility by the bank is scheduled on or before May 31, 2018.

The Company's credit facility includes a covenant requiring the Company to maintain an adjusted working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its credit facility less current liabilities excluding any current portion drawn on the credit facility. The Company was compliant with this covenant at December 31, 2017.

9. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows (adjusted for inflation at 2% per year) required to settle the decommissioning obligations is approximately \$14.7 million (December 31, 2016 - \$12.1 million) which is estimated to be incurred over the next 32 years. At December 31, 2017, a risk-free rate of 2.2% (December 31, 2016 - 2.2%) was used to calculate the net present value of the decommissioning obligations.

	Year Ended December 31, 2017	Year Ended December 31, 2016
Balance, beginning of year	6,820	6,673
Provisions incurred	1,604	339
Provisions settled	(296)	-
Dispositions	(239)	-
Revisions in estimated cash flows	435	-
Revisions due to change of discount rates	232	(318)
Accretion	162	126
Balance, end of year	8,718	6,820

10. SHAREHOLDERS' CAPITAL

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. No non-voting common shares or preferred shares have been issued.

Voting Common Shares	Number	Amount
Balance, December 31, 2015	165,227	283,587
Reclassification of Reserve from common-control transaction	-	(69,712)
Balance, December 31, 2016	165,227	213,875
Share issuances	35,185	80,001
Share issue costs	-	(4,394)
Flow-through share premium	-	(833)
Exercise of warrants and stock options	85	138
Balance, December 31, 2017	200,497	288,787

On April 26, 2017, the Company closed a bought-deal public financing for an aggregate of 33,333,400 common shares at a price of \$2.25 per common share and 1,852,000 common shares on a flow-through basis at a price of \$2.70 per flow-through common share for total gross proceeds of \$80.0 million. Upon issuance, the premium received on the flow-through shares, being the difference between the fair value of the flow-through shares issued and the fair value of the common shares at the date of issuance, was recognized as a liability. The Company incurred the required Canadian exploration expenditures of \$5.0 million related to the flow-through shares during the year ended December 31, 2017. The proceeds of the financing were used to fund the property acquisitions (note 5) and the Company's 2017 capital program.

In connection with the arrangement on June 12, 2014 involving Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd., the reserve created from the common-control transaction represents the difference between the fair value of the Leucrotta shares issued to existing Crocotta shareholders and the net book value of the acquired assets and assumed liabilities, and has been reclassified to Shareholders' Capital as at December 31, 2016.

11. SHARE BASED COMPENSATION PLANS

Stock options

The Company has authorized and reserved for issuance 20.0 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants (the performance warrants described below are aggregated with any options for the 10% limit). Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant and an option's maximum term is ten years. At December 31, 2017, 11.5 million options were outstanding at an average exercise price of \$1.25 per share.

	Number of Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2015	8,895	1.09
Granted	25	1.40
Balance, December 31, 2016	8,920	1.09
Granted	2,626	1.78
Exercised	(76)	1.09
Balance, December 31, 2017	11,470	1.25
Exercisable, December 31, 2017	7,420	1.13

The following table summarizes the stock options outstanding and exercisable at December 31, 2017:

Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$0.80 to \$1.00	4,194	1.9	0.87	2,782	0.87
\$1.01 to \$1.30	4,632	1.0	1.29	4,632	1.29
\$1.31 to \$1.78	2,644	4.7	1.78	6	1.62
	11,470	2.2	1.25	7,420	1.13

During the year ended December 31, 2017, the Company recognized \$1.1 million (December 31, 2016 - \$1.6 million) of share based compensation related to the stock options. At December 31, 2017 there was \$1.8 million remaining as unrecognized share based compensation related to the stock options.

Performance Warrants

The Company has 7.5 million performance warrants outstanding to certain officers, directors, employees, and consultants to purchase common shares at an exercise price of \$1.70. The performance warrants expire on August 18, 2019 and are subject to both time vesting equally over three years and performance vesting as follows:

	30 day Volume Weighted Average Trading Price of the Common Shares (\$)	Percentage of Warrants Vested
	1.87	20%
	2.04	40%
	2.21	60%
	2.38	80%
	2.55	100%

	Number	Exercise Price
Balance, December 31, 2015 and 2016	7,500	1.70
Exercised	(9)	1.70
Balance, December 31, 2017	7,491	1.70
Exercisable, December 31, 2017	4,491	1.70

During the year ended December 31, 2017, the Company recognized \$0.5 million (December 31, 2016 - \$1.4 million) of share based compensation related to the performance warrants. At December 31, 2017 there was \$nil remaining as unrecognized share based compensation related to the performance warrants. No new performance warrants were granted during the year ended December 31, 2017. The remaining life of the performance warrants at December 31, 2017 is 1.6 years (December 31, 2016 – 2.6 years).

Purchase Warrants

The Company has 7.65 million purchase warrants outstanding to certain officers, directors, employees, and consultants to purchase common shares at an exercise price of \$2.04 expiring on September 12, 2019 vesting equally over three years.

	Number of Warrants	Exercise Price
Balance, December 31, 2015, 2016 and 2017	7,650	2.04
Exercisable, December 31, 2017	7,650	2.04

During the year ended December 31, 2017, the Company recognized \$0.4 million (December 31, 2016 - \$1.1 million) of share based compensation related to the purchase warrants. At December 31, 2017 there was \$nil remaining as unrecognized share based compensation related to the purchase warrants. No new purchase warrants were granted during the year ended December 31, 2017. The remaining life of the purchase warrants at December 31, 2017 is 1.7 years (December 31, 2016 – 2.7 years).

Share based compensation

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus.

The fair value of the performance warrants was determined based on a Monte Carlo simulation and the fair value of purchase warrants were measured based on the Black-Scholes-Merton option-pricing model.

There were no performance warrants or purchase warrants granted during the years ended December 31, 2017 and 2016.

The fair value of the stock options granted was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions:

	December 31, 2017	December 31, 2016
Risk-free interest rate (%)	1.7	0.5
Expected life (years)	4.0	3.5
Expected volatility (%)	52.8	63.3
Expected dividend yield (%)	-	-
Forfeiture rate (%)	0.2	5.0
Weighted average fair value of options granted (\$ per option)	0.75	0.63

12. PER SHARE AMOUNTS

There were 11.5 million stock options, 7.7 million purchase warrants and 7.5 million performance warrants that were excluded from the weighted-average share calculations for the year ended December 31, 2017 (December 31, 2016 - 8.9 million stock options, 7.7 million purchase warrants and 7.5 million performance warrants) because they were anti-dilutive.

The following table summarizes the weighted average number of shares used in the basic and diluted per share calculations:

	December 31, 2017	December 31, 2016
Weighted average number of shares - basic and diluted	189,377	165,227

13. KEY MANAGEMENT PERSONNEL

The Company considers its directors and executives to be key management personnel. The key management personnel compensation is comprised of the following:

	December 31, 2017	December 31, 2016
Short-term wages and benefits	1,724	1,690
Share based compensation ⁽¹⁾	1,487	3,189
Total ^(2,3)	3,211	4,879

(1) Represents the amortization of share based compensation expense associated with the Company's share based compensation plans granted to key management personnel inclusive of any capitalized portion.

(2) Balances outstanding and payable at December 31, 2017 were \$nil (December 31, 2016 - \$nil).

(3) At December 31, 2017, key management personnel included 12 individuals (December 31, 2016 - 12 individuals).

14. FINANCE EXPENSE

Finance expense includes the following:

	December 31, 2017	December 31, 2016
Interest expense	125	60
Accretion of decommissioning obligations	162	126
Finance expense	287	186

15. INCOME TAXES

The provision for income taxes in the statements of operations and comprehensive loss reflects an effective tax rate which differs from the expected statutory tax rate. The differences were accounted for as follows:

	December 31, 2017	December 31, 2016
Loss before taxes	9,055	12,182
Statutory income tax rate	26.5%	26.5%
Expected income tax recovery	2,400	3,228
Increase (decrease) in income tax recovery resulting from:		
Share based compensation and other non-deductible amounts	(439)	(953)
Expenditures renounced under flow-through shares	(1,350)	-
Change in statutory income tax rate	160	-
Change in unrecognized deferred income tax asset	(771)	(2,275)
	-	-
Flow-through share premium	833	-
Income tax recovery	833	-

The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2017 and December 31, 2016. The change in the statutory income tax rate at December 31, 2017 is due to the British Columbia corporate tax rate increasing from 11.0% to 12.0% effective January 1, 2018.

At December 31, 2017 and 2016, the Company has an unrecognized net deferred income tax asset based on the independently evaluated reserve report as cash flows are not expected to be sufficient to realize the deferred income tax asset at this time.

At December 31, 2017, the Company has estimated federal tax pools of \$304.4 million (December 31, 2016 - \$221.9 million) available for deduction against future taxable income.

Unrecognized deductible temporary differences are as follows:

	December 31, 2017	December 31, 2016
Oil and natural gas properties and equipment	13,387	11,913
Decommissioning obligations	8,718	6,820
Share issue costs	4,804	1,381
Non-capital losses	4,454	4,454
Unrecognized deductible temporary differences	31,363	24,568

Non-capital losses of \$4.5 million will expire between 2035 and 2036.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities at December 31, 2017 and December 31, 2016 approximated their carrying value due to their short term to maturity.

The Company classified the fair value of its financial instruments at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – observable inputs, such as quoted market prices in active markets
- Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions

During the years ended December 31, 2017 and 2016, there were no transfers between level 1, level 2, and level 3 classified assets and liabilities.

17. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by management. As required under the terms of the Company's credit facility, the Company is subject to an upper limit on fixed price contracts of 65% of its future production up to a three year period.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Foreign exchange risk

The prices received by the Company for the production of oil, natural gas, and NGLs are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company does not currently have any foreign exchange contracts in place.

Interest rate risk

The Company is exposed to interest rate risk when it borrows funds at floating interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The amount drawn on the Company's credit facility at December 31, 2017 was \$nil.

Commodity price risk

Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. A \$1.00/boe increase or decrease in commodity prices would have impacted the net loss by approximately \$1.0 million for the year ended December 31, 2017 (December 31, 2016 - \$0.4 million).

The Company did not enter into commodity price contracts to manage future cash flows as at December 31, 2017.

Credit risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers and joint interest partners in the oil and natural gas industry and are subject to normal industry credit risks. The

Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint interest partners.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its oil and natural gas marketers. Joint interest receivables are typically collected within one to three months of the joint interest billing being issued to the partner. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval for significant capital expenditures prior to the expenditure being incurred. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, in certain circumstances, the Company may cash call a partner in advance of expenditures being incurred.

The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents, restricted cash, and accounts receivable on the statement of financial position. At December 31, 2017, \$3.2 million (78%) of the Company's outstanding accounts receivable were current and \$0.3 million (8%) were outstanding for more than 90 days. During the year ended December 31, 2017, the Company deemed \$0.1 million of outstanding accounts receivable to be uncollectable (December 31, 2016 - \$nil).

Cash and cash equivalents consists of bank balances placed with a financial institution with strong investment grade ratings which management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it has access to additional financing, including potential equity issuances and additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

See note 21 for a summary of contractual commitments at December 31, 2017. The Company's accounts payable and accrued liabilities are all due within the current operating period.

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain a flexible capital structure, which optimizes the cost of capital at an acceptable risk, and to maintain investor, creditor, and market confidence to sustain future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity and working capital (current assets less current liabilities). To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt, or adjust its capital spending to manage its current and projected debt levels.

	December 31, 2017	December 31, 2016
Shareholders' equity	293,759	225,164
Working capital	18,660	26,063

In addition, management prepares annual, quarterly, and monthly budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to external restrictions, however, the Company's credit facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one (see note 8). There were no changes in the Company's approach to capital management from the previous year.

19. SUPPLEMENTAL DISCLOSURES

Presentation of expenses

The Company's statements of operations and comprehensive loss is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in general and administrative expenses. Included in general and administrative expenses for the year ended December 31, 2017 are \$3.3 million of wages and benefits (December 31, 2016 - \$3.1 million).

20. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2017	December 31, 2016
Restricted cash	-	1,131
Accounts receivable	(2,586)	1,017
Prepaid expenses and deposits	(174)	71
Accounts payable and accrued liabilities	913	(3,456)
Change in non-cash working capital	(1,847)	(1,237)
Relating to:		
Investing	(852)	(1,905)
Operating	(995)	668
Change in non-cash working capital	(1,847)	(1,237)

21. COMMITMENTS

The following is a summary of the Company's commitments at December 31, 2017:

	2018	2019	2020	2021	2022	Thereafter	Total
Office lease	404	320	320	267	-	-	1,311
Firm transportation agreements	4,667	7,894	6,429	-	-	-	18,990
	5,071	8,214	6,749	267	-	-	20,301

Transportation commitments include contracts to transport natural gas and NGLs through third-party owned pipeline systems. The Company currently has commitments of 18.3 mmcf/d escalating over time to 33.3 mmcf/d.

CORPORATE INFORMATION

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