

# **UMBRAL ENERGY CORP.**

Annual Consolidated Financial Statements

Years ended October 31, 2016 and 2015  
(Stated in Canadian Dollars)

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# Umbral Energy Corp.

Annual Consolidated Financial Statements

Years ended October 31, 2016 and 2015

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Umbral Energy Corp.

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Umbral Energy Corp., which comprise the consolidated statements of financial position as at October 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

### Opinion

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

### Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

February 24, 2017

*"Morgan & Company LLP"*

Chartered Professional Accountants

**Umbral Energy Corp.**  
**Consolidated Statements of Financial Position**  
(Stated in Canadian Dollars)

	AS AT OCTOBER 31,	
	2016	2015
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 85,057	\$ 11,806
GST receivable	2,909	5,432
Prepaid expenses and deposits (Note 4)	96,231	47,032
<b>Total Current Assets</b>	<b>184,197</b>	<b>64,270</b>
<b>Investment in joint venture and advances (Note 5)</b>	<b>433,914</b>	<b>438,666</b>
<b>Exploration and evaluation assets (Note 6)</b>	<b>146,350</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 764,461</b>	<b>\$ 502,936</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 223,093	\$ 199,063
Provision for flow-through liability (Note 10)	69,927	69,927
Due to related parties (Note 8)	102,278	110,090
<b>Total Liabilities</b>	<b>395,298</b>	<b>379,080</b>
<b>Equity</b>		
Share Capital (Note 7)	6,067,501	5,061,580
Share-based Payment Reserve	674,170	461,841
Share subscriptions receivable (Note 7)	-	(56,750)
Deficit	(6,372,508)	(5,342,815)
<b>Total Equity</b>	<b>369,163</b>	<b>123,856</b>
<b>Total Liabilities and Equity</b>	<b>\$ 764,461</b>	<b>\$ 502,936</b>

Nature of Operations and Going Concern (Note 1)  
Subsequent Events (Note 13)

Approved on behalf of the Board of Directors:

“Jagdip Bal”  
Director

“Clint Sharples”  
Director

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

**Umbral Energy Corp.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Stated in Canadian Dollars)

	<b>YEARS ENDED OCTOBER 31</b>	
	<b>2016</b>	<b>2015</b>
<b>General and Administrative Expenses</b>		
Business investigation	\$ 13,215	\$ -
Consulting fees (Note 8)	129,144	225,865
Finders' fees	-	27,500
Management fees (Note 8)	91,333	60,000
Office expense and miscellaneous	7,428	5,064
Professional fees	66,744	118,134
Rent	-	3,900
Regulatory fees	8,813	14,849
Shareholder communications	6,665	479
Stock based compensation (Notes 7 & 8)	618,290	550,669
Transfer agent and shareholder information	14,787	14,922
Travel and promotion	68,522	2,000
<b>Loss Before Other Expenses</b>	<b>(1,024,941)</b>	<b>(1,023,382)</b>
<b>Other Expenses</b>		
Equity loss on investment in joint venture (Note 5)	(4,752)	(100,094)
<b>Net Loss and Comprehensive Loss For The Year</b>	<b>\$ (1,029,693)</b>	<b>\$ (1,123,476)</b>
<b>Basic and Diluted Loss Per Share</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>56,405,225</b>	<b>44,637,372</b>

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

**Umbral Energy Corp.**  
**Consolidated Statements of Changes in Equity**  
(Stated in Canadian Dollars)

**Years Ended October 31, 2016 and 2015**

	SHARE CAPITAL		SHARE-BASED PAYMENT RESERVE	SHARE SUBSCRIPTIONS RECEIVABLE	DEFICIT	TOTAL
	NUMBER	AMOUNT				
Balance, October 31, 2014	37,902,972	3,860,082	373,579	-	(4,219,339)	14,322
Issued shares for cash				-		
Share options exercised	10,458,000	1,002,638	(462,407)	-	-	540,231
Warrants exercised	106,000	6,360	-	-	-	6,360
Share issued for acquisition	3,000,000	165,000	-	-	-	165,000
Shares issued for finders' fees	500,000	27,500	-	-	-	27,500
Stock based compensation	-	-	550,669	-	-	550,669
Share subscription receivable (Note 7)	-	-	-	(56,750)	-	(56,750)
Net loss for the year	-	-	-	-	(1,123,476)	(1,123,476)
Balance, October 31, 2015	51,966,972	5,061,580	461,841	(56,750)	(5,342,815)	123,856
Issued shares for cash				-		
Share options exercised	8,085,000	846,011	(405,961)	-	-	440,050
Warrants exercised	1,790,174	107,410	-	-	-	107,410
Shares issued for acquisition	1,500,000	52,500	-	-	-	52,500
Stock based compensation	-	-	618,290	-	-	618,290
Share subscription receivable (Note 7)	-	-	-	56,750	-	56,750
Net loss for the year	-	-	-	-	(1,029,693)	(1,029,693)
<b>Balance, October 31, 2016</b>	<b>63,342,146</b>	<b>\$ 6,067,501</b>	<b>\$ 674,170</b>	<b>\$ -</b>	<b>\$ (6,372,508)</b>	<b>\$ 369,163</b>

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

**Umbral Energy Corp.**  
**Consolidated Statements of Cash Flows**  
(Stated in Canadian Dollars)

	<b>YEARS ENDED OCTOBER 31</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>		
Net loss for the year	\$ (1,029,693)	\$ (1,123,476)
Adjustments for non-cash expenses and income		
Loss on investment in joint venture	4,752	100,094
Shares issued for finders' fees	-	27,500
Stock based compensation	618,290	550,669
Changes in non-cash operating assets and liabilities		
GST receivable	2,523	3,820
Prepaid expenses	(49,199)	(39,229)
Accounts payable and accrued liabilities	24,030	44,340
Due to related parties	(7,812)	64,594
<b>Cash Used In Operating Activities</b>	<b>(437,109)</b>	<b>(371,688)</b>
<b>Investing Activities</b>		
Advances	-	(244,260)
Acquisition of investment in joint venture	-	(129,500)
Mineral property acquisition and exploration costs	(93,850)	-
<b>Cash Used In Investing Activities</b>	<b>(93,850)</b>	<b>(373,760)</b>
<b>Financing Activity</b>		
Share capital proceeds	604,210	489,841
<b>Cash Provided By Financing Activity</b>	<b>604,210</b>	<b>489,841</b>
<b>Change In Cash</b>	<b>73,251</b>	<b>(255,607)</b>
<b>Cash, Beginning Of Year</b>	<b>11,806</b>	<b>267,413</b>
<b>Cash, End Of Year</b>	<b>\$ 85,057</b>	<b>\$ 11,806</b>
<b>Supplementary Information</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

**Non-cash Investing and Financing Transactions (Note 9)**

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

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended October 31, 2016 and 2015**  
(Stated in Canadian Dollars)

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**1. Nature of Operations and Going Concern**

The Company is a development stage public company whose common shares trade on the Canadian Securities Exchange under the symbol "UMB.C" The Company was incorporated on October 25, 2007 in British Columbia, Canada, under the Business Corporations Act and commenced operations on November 1, 2007. The head office and principal address of the Company is 929 Mainland Street, Vancouver, British Columbia, Canada V6C 2B3 and the registered and records office of the Company is located at Suite 1500-1055 West Georgia St., Vancouver, B.C., V6E 4N7.

The Company is principally engaged in the acquisition, exploration, and development of resource properties. However, the Company is also involved in the acquisition of a Health Canada license under the Marihuana for Medical Purposes Regulations ("MMPR") for the purpose of entering the medical marijuana industry through its equity investment, Phyeinmed Inc.

Although the Company has started to invest resources for a medical marijuana business, there is no guarantee the Company will be awarded a license to grow medical marijuana. As the Company does not yet have cash flow from operations, it must rely on equity financing to fund operations. To date the Company's main source of funding has been the issuance of equity securities for cash, through private placements to sophisticated investors and through public offering to institutional investors. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to explore its mineral properties, develop its MMPR business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions, resource property exploration success and its progress on obtaining an MMPR license. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these consolidated financial statements.

**2. Basis of Presentation**

a) Statement of Compliance

The consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2017.



**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended October 31, 2016 and 2015**  
(Stated in Canadian Dollars)

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**2. Basis of Presentation (Continued)**

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value.

In the opinion of management, all adjustments (including normal recurring accruals), considered necessary for a fair presentation have been included.

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

c) Critical Accounting Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Information about critical accounting judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

i) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 7.

ii) Flow-through Share Provision

Flow-through share provisions are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring the required amount of qualifying exploration expenditures related to past flow-through share issuances on a timely basis. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made exploration expenditures. Flow-through share provisions have been created based on internal estimates of the maximum penalties and indemnification liabilities the Company could be subject to.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**2. Basis of Presentation (Continued)**

c) Significant Accounting Judgments and Estimates (continued)

ii) Flow-through Share Provision (continued)

Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management.

**3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 1005477 B.C. Ltd. and Umbral Energy LLC (Washington State). The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting dates of the Company. All inter-company transactions and balances are eliminated on consolidation.

Investments in joint ventures are accounted for using the equity method. Under this method, the Company's share of the investment's earnings or losses is included in the statement of comprehensive loss and the carrying amount of the investment is adjusted by this amount.

b) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change and have maturities of three months or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company had no cash equivalents at October 31, 2016 and 2015.

c) Investment in Joint Ventures

A joint venture is a joint arrangement whereby the partners that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in a joint venture are accounted for using the equity method and are initially recognized at cost. The entire carrying amount of the investment is tested for impairment annually.

d) Exploration and Evaluation Assets

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**3. Significant Accounting Policies (Continued)**

d) Exploration and Evaluation Assets (Continued)

Exploration and evaluation costs

Once the legal right to explore a property has been acquired, exploration and evaluation expenditures are recognized and capitalized in addition to the acquisition costs. Exploration costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Once the technical feasibility and commercial viability of extraction of the mineral resources has been determined, the property is considered to be a property under development and is reclassified as such. Accordingly, costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for prospects abandoned are written off.

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of its exploration and evaluation costs. Impairment losses or write-downs are recorded in the event the carrying amount of such assets exceeds the recoverable amount indicated in the future cash flows attributable to such assets.

The recoverability of the amounts capitalized for the undeveloped exploration and evaluation assets is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof. Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to its exploration and evaluation assets and, to the best of its knowledge, the title to its properties is in good standing.

Mineral exploration tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mineral tax credits are earned in respect to exploration costs incurred in Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

e) Impairment of Non-financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Each of the Company's exploration and evaluation properties is considered to be a cash-generating unit for which impairment testing is performed.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in Canadian Dollars)

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**3. Significant Accounting Policies (Continued)**

e) Impairment of Non-financial Assets (Continued)

Where an indicator of impairment exists, an estimate of the recoverable amount is made. Determining the recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in circumstances may affect these estimates and the recoverable amount.

An impairment loss is recognized in the statement of operations, except to the extent they reverse gains previously recognized in other comprehensive income or loss.

f) Impairment of Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

g) Income Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax is recognized in the statement of comprehensive loss except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income. Current income taxes are the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the asset can be utilized.

At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Deferred income tax assets and liabilities are presented as non-current.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**3. Significant Accounting Policies (Continued)**

h) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and flow-through shares are classified as equity instruments.

Proceeds from the issue of units, consisting of common shares and share purchase warrants, are first allocated to common shares based on the quoted market value of the common shares at the time the units are priced, and the balance, if any, is allocated to the attached warrants. Broker warrants are compensation warrants issued to the brokers involved in the Company's financing efforts. Fair value is calculated at the grant date using the Black-Scholes option pricing model, with management's assumptions. Share issue costs are netted against share proceeds.

i) Share-based Payments

Equity-settled share based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of shares that will eventually vest. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share based payments are reflected in share based payment reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share based payment reserves is credited to share capital along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended October 31, 2016 and 2015**  
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**3. Significant Accounting Policies (Continued)**

j) Provisions

*Decommissioning Liabilities*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of tangible long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized to the amount of the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as the related asset. The liability is progressively increased each period as the effect of the discounting unwinds, creating an expense recognition in the statement of comprehensive loss.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the rehabilitation provision.

The Company's estimates are reviewed at each reporting date for changes in regulatory requirements, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the statement of comprehensive loss for the period. As at October 31, 2016 and 2015, the Company is not aware of any reclamation costs and no amounts have been recorded.

*Provisions for Liabilities and Charges*

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

k) Basic and Diluted Loss per Share

Basic loss per share is computed by dividing the net loss for the year by the weighted average number of common shares outstanding for the relevant year. Diluted loss per common shares is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. In a loss period, stock options and warrants are anti-dilutive.

l) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended October 31, 2016 and 2015**  
(Stated in Canadian Dollars)

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**3. Significant Accounting Policies (Continued)**

l) Financial Instruments (Continued)

At initial recognition, the Company classifies its financial assets in the following categories depending on the purpose for which the instruments were acquired.

Financial assets are classified into one of four categories: Financial assets at fair value through profit or loss ("FVTPL"), Held-to-maturity investments, available for sale ("AFS") financial assets and loans and receivable.

The Company has classified cash and cash equivalents and due from related party as loans and receivable.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of a trade receivable is reduced through the use of an allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive loss.

Impairment losses on loans and receivables carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include accounts payables and accrued liabilities and amounts due to related parties. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

m) Accounting Standards Issued But Not Yet Applied

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date.

**Umbral Energy Corp.**  
**Notes to the Consolidated Financial Statements**  
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**3. Significant Accounting Policies (Continued)**

m) Accounting Standards Issued But Not Yet Applied (Continued)

*IFRS 9 Financial Instruments*

IFRS 9, Financial instruments (“IFRS 9”), amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in Other Comprehensive Income (“OCI”), and guidance on financial liabilities and de-recognition of financial instruments. In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. IFRS 9 is applicable for periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

**4. Prepaid Expenses and Deposits**

During the year ended October 31, 2016, the Company advanced \$137,044 (US\$125,000) for a 12 month digital marketing program to raise awareness of the Company’s projects to current and potential investors effective June 1, 2016.

During the year ended October 31, 2015, prepaid expenses and deposits included a \$32,388 (US\$25,000) deposit relating to letter of intent to acquire 90% interest in a Washington State limited liability company (“LLC”). The LLC is the sole owner of a Provisional Tier 3 recreational marijuana production and processing license application (the “License”). During the year ended October 31, 2016, the Company decided not to proceed with this acquisition and the deposit was applied against accrued legal fees payable.

**5. Investment in Joint Venture and Advances**

	<b>2016</b>		<b>2015</b>
Investment in joint venture	\$ <b>189,654</b>	\$	194,406
Advances to joint venture	<b>244,260</b>		244,260
	<b>\$ 433,914</b>	\$	<b>438,666</b>

a) Investment in Joint Venture

The Company holds all the issued and outstanding shares of 1005477 B.C. Ltd., a holding company which owns 50% of the common shares of PhyeinMed Inc. (“PhyeinMed”), an operating company incorporated in British Columbia which has submitted an application to Health Canada for a Marijuana for Medical Purposes Regulations license. Management determined that the 50% interest in PhyeinMed is a joint venture under IFRS 11 as Umbral management has no control over strategic, financial, permitting, development or operating decisions of Phyeinmed. The investment in the joint venture is accounted for using the equity method.



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**5. Investment in Joint Venture and Advances (Continued)**

a) Investment in Joint Venture (Continued)

The continuity of this investment of the joint venture is as follows:

	<b>2016</b>	<b>2015</b>
Balance, beginning of the year	\$ 194,406	\$ -
Acquisition costs - Cash	-	129,500
Acquisition costs - Shares	-	165,000
Subtotal	<b>194,406</b>	294,500
Equity loss on investment in joint venture	<b>(4,752)</b>	(100,094)
Balance, end of the year	<b>\$ 189,654</b>	\$ 194,406

Summary financial information of the investment of the joint venture is as follows:

<u>Statements of Financial Position</u>	<b>2016</b>	<b>2015</b>
Total Assets	<b>\$ 13,431</b>	\$ 13,424
Current Liabilities	<b>34,509</b>	25,000
Advances from Joint Venture Partner	<b>373,759</b>	373,759
Shareholders' Deficiency	<b>(394,837)</b>	(385,335)
Total liabilities and shareholders' deficiency	<b>\$ 13,431</b>	\$ 13,424
<u>Statements of Comprehensive Loss</u>	<b>2016</b>	<b>2015</b>
Expenses	<b>\$ 9,502</b>	\$ 200,189
Comprehensive loss for the year	<b>\$ 9,502</b>	\$ 200,189
<u>Statements of Cash Flow</u>	<b>2016</b>	<b>2015</b>
Comprehensive loss for the year	<b>\$ (9,502)</b>	\$ (200,189)
Changes in non-cash operating assets and liabilities		
GST receivable	<b>(229)</b>	(7,221)
Accounts payable and accrued liabilities	<b>9,509</b>	(38,160)
Cash Used in Operating Activities	<b>(222)</b>	(245,570)
Cash Used in Investing Activities	-	-
Cash Provided by Financing Activities	-	244,260
Change In Cash	<b>(222)</b>	(1,310)
Cash, Beginning Of Year	<b>222</b>	1,532
Cash, End Of Year	<b>\$ -</b>	\$ 222

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**5. Investment in Joint Venture and Advances (Continued)**

b) Advances

During the year ended October 31, 2015 the Company entered into a loan agreement whereby the Company will advance up to \$2,000,000 to PhyeinMed for working capital purposes. The advances are unsecured and are due within 36 months from the date of the advance. The first \$550,000 advanced does not accrue interest prior to 36 months from the date of the advance after which interest shall be accrued at prime plus 2%. All advances subsequent to the initial \$550,000 will accrue interest at prime plus 2% from the date of the advance. PhyeinMed can only repay the initial \$550,000 advanced as follows:

- a) \$25,000 once an application for a medical marihuana growing operation is awarded to PhyeinMed by Health Canada;
- b) \$150,000 once the final MMPR license is awarded to PhyeinMed by Health Canada;
- c) \$150,000 once PhyeinMed has achieved an accumulated EBITDA of \$1,000,000; and
- d) \$225,000 once PhyeinMed has achieved an accumulated EBITDA of \$2,000,000

**6. Exploration and Evaluation Assets**

	<b>LITHIUM PROPERTIES</b>
<i>Acquisition Costs:</i>	
Balance, beginning of year	\$ -
Cash payment	60,000
Shares issued	52,500
	<hr/>
Balance, end of year	112,500
	<hr/>
<i>Exploration Costs:</i>	
Balance, beginning of year	-
Assaying and geochemical	975
Claim fees	6,964
Geological consulting, surveys and reports	14,930
Travel, supplies and field expenses	10,981
	<hr/>
Balance, end of year	33,850
	<hr/>
<b>Total Acquisition and Exploration Costs, end of year</b>	<b>\$ 146,350</b>

Tule Valley Project, Utah and Gerlach Project, Nevada

Pursuant to a property purchase agreement dated April 20, 2016, the Company was granted the right to acquire an undivided 100% interest in 26 contiguous mineral claims totaling 4,800 acres located in Millard County, Utah known as the Tule Valley Project and a further 89 contiguous mineral claims totaling 1,780 acres located in Washoe County, Nevada known as the Gerlach Project ("Lithium Properties").

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**6. Exploration and Evaluation Assets (Continued)**

As consideration for the properties, the Company is required to make the following cash payments and issue the following shares:

	<u>CASH PAYMENTS</u>	<u>COMMON SHARES</u>
On signing of option agreement		
April 20, 2016 (cash paid and shares issued)	\$ 10,000	1,500,000
On or before June 20, 2016 (paid)	20,000	Nil
On or before July 20, 2016 (paid)	30,000	Nil
On or before April 20, 2017	<u>100,000</u>	<u>1,500,000</u>
	<u>\$ 160,000</u>	<u>3,000,000</u>

The properties are subject to a net smelter return royalty of 2%. The Company has an option to purchase 1% of the 2% net smelter return royalty for \$1,000,000 at any time.

**7. Share Capital and Reserve**

a) Authorized

Unlimited number of common shares without par value

b) Issued

Year ended October 31, 2016:

The Company issued 8,085,000 common shares for the exercise of 8,085,000 stock options between \$0.05 and \$0.08 per share for total proceeds of \$440,050 which resulted in a transfer from share-based payment reserve to share capital of \$405,961. The Company issued 1,790,174 common shares for the exercise of 1,790,174 warrants at \$0.06 per share for total proceeds of \$107,410.

The Company issued 1,500,000 common shares with a fair value of \$52,500 measured on the date of issuance in accordance with the option agreement the right to acquire an interest in the Tule Valley and Gerlach Lithium properties (Note 6).

Year ended October 31, 2015:

The Company issued 10,458,000 common shares for the exercise of 10,458,000 stock options between \$0.05 and \$0.06 per share for total proceeds of \$540,231 which resulted in a transfer from share-based payment reserve to share capital of \$462,407. The Company issued 106,000 common shares for the exercise of 106,000 warrants at \$0.06 per share for total proceeds of \$6,360.

The Company issued 3,000,000 common shares with a fair value of \$165,000 measured on the date of issuance in accordance with the share exchange agreement dated December 9, 2014 included in the acquisition costs for all the issued and outstanding shares of 1005477 B.C. Ltd (Note 5). The Company also issued 500,000 common shares with a fair value of \$27,500 measured on the date of issuance for finders' fees.

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**7. Share Capital and Reserve (Continued)**

c) Warrants

The following is a summary of the changes in warrants:

	<b>NUMBER OF WARRANTS</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Balance, October 31, 2014	13,741,400	\$0.06
Exercised	(106,000)	0.06
Balance, October 31, 2015	13,635,400	\$0.06
Exercised	(1,790,174)	0.06
Balance, October 31, 2016	<b>11,845,226</b>	<b>\$0.06</b>

The following table summarizes the warrants outstanding and exercisable at October 31, 2016:

<b>NUMBER OF WARRANTS</b>	<b>EXERCISE PRICE</b>	<b>EXPIRY DATE</b>
7,489,962	\$0.06	March 19, 2018
922,966	\$0.10	March 19, 2018
975,989	\$0.06	May 16, 2018
293,809	\$0.10	May 16, 2018
2,162,500	\$0.06	December 20, 2018
<b>11,845,226</b>		

As at October 31, 2016, the weighted average remaining contractual life of all warrants outstanding was 1.54 years (2015 – 2.56 years).

d) Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Canadian Stock Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options will be exercisable for a period to be determined by the board of Directors, but not exceeding 10 years.

In connection with the foregoing, the number of common shares reserved for issuance to any technical consultant will not exceed two percent (2%) of the issued and outstanding common shares in any twelve month period. The number of common shares reserved for issuance to individuals providing investor relation services will not exceed two percent (2%) of issued and outstanding common shares in any twelve month period. Further, these options must vest over twelve months with a maximum of one quarter of the options vesting in any three month period. Options may be exercised no later than 30 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

During the year ended October 31, 2016, stock based compensation in the amount of \$618,290 (2015 – \$550,669) was recognized on the issuance of stock options to directors, officers and consultants.

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**7. Share Capital and Reserve (Continued)**

d) Stock Options (Continued)

The continuity of options for the years ended October 31, 2016 and 2015 is summarized below:

	<b>NUMBER OF OPTIONS</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Balance, October 31, 2014	2,275,000	\$0.06
Issued	12,100,000	0.05
Exercised	(10,458,000)	0.05
Expired	(367,000)	0.05
Balance, October 31, 2015	3,550,000	\$0.05
Issued	9,300,000	0.06
Exercised	(8,085,000)	0.05
Balance, October 31, 2016	<b>4,765,000</b>	<b>\$0.08</b>

The following table summarizes the options outstanding and exercisable at October 31, 2016:

<b>NUMBER OF OPTIONS</b>	<b>EXERCISE PRICE</b>	<b>EXPIRY DATE</b>
3,265,000	\$0.08	May 30, 2021
1,500,000	\$0.085	June 2, 2021
<b>4,765,000</b>		

As at October 31, 2016, the weighted average remaining contractual life of all options outstanding was 4.58 years (2015 – 4.56 years).

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

	<b>2016</b>	<b>2015</b>
Dividend yield	Nil	Nil
Annualized volatility	<b>208 - 214%</b>	130 - 186%
Risk-free interest rate	<b>0.61% - 0.73%</b>	0.60% - 1.19%
Expected life	<b>5 years</b>	5 years

e) Loss Per Share

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. The basic and diluted loss per share are the same as there are no instruments that have a dilutive effect.

	<b>YEARS ENDED OCTOBER 31,</b>	
	<b>2016</b>	<b>2015</b>
Issued shares at beginning of year	<b>51,966,972</b>	37,902,972
Weighted average issuances	<b>4,438,253</b>	6,734,400
Basic weighted average common shares	<b>56,405,225</b>	44,637,372

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**7. Share Capital and Reserve (Continued)**

f) Nature and Purpose of Reserve

The 'Share-based Payment Reserve' is used to recognize the fair value of stock option grants and warrants prior to exercise, expiry or cancellation.

g) Share Subscriptions Receivable

During the year ended October 31, 2016, the Company received \$56,750 relating to share subscriptions receivable.

**8. Related Party Transactions**

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments.

a) Related party transactions with directors and companies with a director in common.

	<b>2016</b>		<b>2015</b>
Management fees	\$ 91,333	\$	60,000
Consulting fees	4,150	\$	-

b) Advances payable

	<b>2016</b>		<b>2015</b>
Advances from directors are unsecured, non-interest bearing and is repayable on demand	\$ 102,278	\$	110,090

c) Management compensation

	<b>2016</b>		<b>2015</b>
Short-term employee benefits	\$ 95,483	\$	60,000
Share-based payments	336,900	\$	220,888

**9. Non-Cash Investing and Financing Transactions**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

Year ended October 31, 2016:

\$405,961 was transferred from share based payment reserves to share capital as a result of the exercise of 8,085,000 stock options.

The Company issued 1,500,000 common shares of the Company with a fair value of \$52,500 on the date of issuance under the option agreement to acquire an interest in the Tule Valley and Gerlach Lithium properties. This transaction was excluded from the statement of cash flows.

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**9. Non-Cash Investing and Financing Transactions (Continued)**

Year ended October 31, 2015:

\$462,407 was transferred from share based payment reserves to share capital as a result of the exercise of 10,458,000 stock options.

The Company issued 3,000,000 common shares of the Company with a fair value of \$165,000 on the date of issuance included in the acquisition costs of 1005477 B.C. Ltd., a holding company which owns 50% of PhyeinMed Inc., an operating company which has submitted an application to Health Canada for a Marihuana for Medical Purposes Regulations License.

**10. Income Taxes**

The Company's provision for income taxes for the years ended October 31, 2016 and 2015 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the loss as a result of the following:

	<u>2016</u>	<u>2015</u>
Statutory rates	<u>26%</u>	<u>26%</u>
Income tax recovery at statutory rate	\$ (268,000)	\$ (279,000)
Non-deductible permanent differences	161,000	143,000
Income tax benefits not recognized and other	<u>107,000</u>	<u>136,000</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary timing differences that give rise to significant components of the deferred tax assets were as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax assets (liabilities)		
Non-capital loss carry forward	\$ 733,000	\$ 622,000
Investment in associate	14,000	13,000
Share issuance costs	4,000	8,000
Resource deductions	<u>252,000</u>	<u>252,000</u>
	<u>1,003,000</u>	<u>895,000</u>
Less: Tax assets not recognized	<u>(1,003,000)</u>	<u>(895,000)</u>
Net deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

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**10. Income Taxes (Continued)**

The Company has accumulated non-capital losses for Canadian tax purposes of approximately \$2,819,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:

2028	\$	81,000
2029		148,000
2030		247,000
2031		267,000
2032		187,000
2033		422,000
2034		536,000
2035		504,000
2036		427,000
		<u>\$ 2,819,000</u>

The Company has cumulative Canadian exploration and development expenses in the amount of approximately \$1,111,000, which can be carried forward indefinitely. No benefit has been recognized in respect of these amounts.

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended.

The Company has estimated the potential shareholder liability in the amount of \$69,927 as at October 31, 2016 and 2015. To estimate the potential indemnification liability, management used a combined tax rate of 38% of unspent flow-through funds raised. The accrued amounts are subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreements, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.

As at October 31, 2016 the Company's accounts payable and accrued liabilities includes a liability for \$13,728 (2015 - \$13,728) in Part XII.6 taxes.

**11. Financial Instruments and Risk Management**

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and process for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.



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**11. Financial Instruments and Risk Management (Continued)**

a) 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 and are comprised of foreign currency risk and interest rate risk.

b) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation.

c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents is limited because of the short-term nature of the investments.

d) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company considers this risk to be minimal.

e) 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 policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections.

If future cash flows are fairly uncertain, the liquidity risk increases. The Company manages liquidity risk through the management of its capital structure (Note 6). Accounts payable and accrued liabilities and promissory notes are due within the current operating year.

e) Liquidity Risk (continued)

As at October 31, 2016, the Company had a working capital deficiency of \$211,101 (2015 – \$314,810). The Company does not currently operate any producing properties and as such, may be dependent upon issuance of new equity to advance its exploration properties. If equity financing is required, failure to obtain financing on a timely basis may cause the Company to postpone exploration plans, reduce or terminate its operations.

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**11. Financial Instruments and Risk Management (Continued)**

*Determination of Fair Value:*

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The financial position carrying amounts for cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and promissory notes payable approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

*Fair Value Hierarchy:*

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments are classified into the following categories:

	Level	October 31, 2016		October 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	1	\$ 85,057	\$ 85,507	\$ 11,806	\$ 11,806

**12. Management of Capital Risk**

The Company manages its cash and cash equivalents, common shares, stock options and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

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**12. Management of Capital Risk (Continued)**

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

Management considers its approach to capital management approach to be appropriate given the relative size of the Company. There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

**13. Subsequent Events**

Subsequent to October 31, 2016, the Company has:

- Granted 830,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at \$0.05 per share expiring November 24, 2021.
- Granted 3,450,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at \$0.07 per share expiring February 10, 2022.
- Granted 2,200,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at \$0.09 per share expiring February 17, 2022.
- Issued 830,000 common shares for the exercise of 830,000 options at \$0.05 per share for total proceeds of \$41,500 which resulted in a transfer from share-based payment reserve to share capital of \$32,636.
- Issued 3,350,000 common shares for the exercise of 3,350,000 options at \$0.07 per share for total proceeds of \$234,500 which resulted in a transfer from share-based payment reserve to share capital of \$231,371.
- Issued 1,850,000 common shares for the exercise of 1,850,000 options at \$0.08 per share for total proceeds of \$148,000 which resulted in a transfer from share-based payment reserve to share capital of \$145,148.
- Issued 1,026,000 common shares for the exercise of 1,026,000 warrants at \$0.06 and \$0.10 per share for total proceeds of \$69,951.

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**13. Subsequent Events** (Continued)

- Entered into an Assignment Agreement with Equitorial Exploration Corp. for them to acquire 100% interests in both the Tule Valley Project and the Gerlach Project. Equitorial shall pay Umbral the sum of \$50,000 on execution of this agreement and shall issue to the Umbral 2,000,000 common shares upon regulatory acceptance. In consideration for the assignment of the underlying agreement, Equitorial will assume a final payment of \$100,000 to the underlying owner and Umbral will issue 1,500,000 shares for 100% interest in the properties. There is a 2% NSR in favour of the underlying owner.