

AVALON ENERGY LTD.

**BALANCE SHEET
FEBRUARY 28, 2019
(UNAUDITED)**

ASSETS

Current assets

Cash	\$ 133,852
Accounts receivable - revenue	196,043
Accounts receivable - jt. venture	19,070
Taxes receivable	7,314
Loans receivable	788
Deposits	119
	<u>357,186</u>

Capital assets

Oil and gas properties	2,104,052
Production equipment	72,278
Automotive equipment	133,383
Computer equipment/software	11,008
Office furniture and equipment	6,631
	<u>2,327,352</u>

\$ 2,684,538

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ <u>419,510</u>
------------------	-------------------

Due to shareholders

80,725

Shareholders' equity

Share capital

Common shares

1

Retained earnings

2,184,302

2,184,303

\$ 2,684,538

AVALON ENERGY LTD.

**STATEMENT OF LOSS AND RETAINED EARNINGS
YEAR ENDED FEBRUARY 28, 2019
(UNAUDITED)**

REVENUE

Oil and gas sales	\$ 1,234,946
Royalty expense - Crown	18,246
Royalty expense - Freehold	3,184
Royalty expense - GORR	114,854
	<u>136,284</u>
	1,098,662
Royalty income - GORR	169
Water disposal revenue	16,187
Consulting fees	1,955
Administration fees	39,048
Interest income	740
	<u>1,156,761</u>

EXPENSES

Production	743,177
Advertising and promotion	3,081
Automobile	5,523
Bank charges	672
Contract services	118,415
Interest	1,410
Licenses and permits	347
Meals and entertainment	4,872
Office	7,383
Professional fees	3,356
Rent	17,946
Subscriptions	2,353
Telephone/fax/internet	8,066
Training and seminars	6,255
Travel	6,917
Donations	200
Bad debts	41,842
	<u>971,815</u>

INCOME BEFORE THE FOLLOWING 184,946

OTHER EXPENSE

Loss on sale of investments 193,318

NET LOSS 8,372

RETAINED EARNINGS, beginning of year 2,144,457
2,136,085

Prior period adjustments 48,217

RETAINED EARNINGS, end of year \$ 2,184,302

CAPITAL COST ALLOWANCE (CCA)

Corporation's name AVALON ENERGY LTD.	Business number 127291524 RC 0001	Tax year-end Year Month Day 2019/02/28
---	---	---

For more information, see the section called "Capital Cost Allowance" in the T2 Corporation Income Tax Guide.

Is the corporation electing under Regulation 1101(5q)? 101 1 Yes ☐ 2 No ☒

1 Class no.	Description	2 UCC - Start of year	3 Cost of additions	4 Cost of additions (included on line 203) that are AIIIP	5 Adjustments and transfers	8 Proceeds of dispositions	9 UCC	For tax years ending before November 21, 2018: 50% rule (1/2 of net acquisitions) 211	12 UCC adjustment for AIIIP	13 UCC adjustment for non-AIIIP	14 rate %	17 CCA	18 UCC - end of year
200		201	203	225	205	207				224	212	217	220
		1,311					1,311				20.0	262	1,049
1. 8.0	Office equipmnet	1,311					1,311			2,059	30.0	6,872	18,094
2. 10.0	Auto equipmnet	20,849	4,117				24,966				45.0	1	1
3. 45.0	Computer e	2					2				55.0	1,534	1,255
4. 50.0	Computer e	2,789					2,789				25.0	1,634	9,059
5. 41.0	Production equipment	2,381	8,312				10,693			4,156		10,303	29,458
	Totals	27,332	12,429				39,761			6,215			

Part 5 - Cumulative Canadian development expenses

* The definition of the Canadian exploration expense (CEE) in subsection 66.1(6) was amended to implement the transition from CEE to Canadian development expense (CDE) of the pre-production development expenses incurred after March 21, 2011, for the purpose of bringing a new oil sands mine into production in reasonable commercial quantities. Transitional relief is provided for eligible oil sands mine development expenses incurred after March 21, 2011, and before 2016.

The definition of the CEE was also amended to implement the transition from CEE to CDE for pre-production mine development expenses incurred after March 20, 2013, for the purpose of bringing a new mine (other than an oil sands mine) into production in reasonable commercial quantities. Transitional relief is provided for the expenses incurred between March 21, 2013, and before 2018.

There are grandfathering provisions for CEE treatment under both of the above amendments.

	Regular expenses*	Successor expenses
Balance at end of previous tax year	300 56,353	350
Add: current-year expenses, excluding expenses incurred under look-back rule	303 3,269	
Add: current-year expenses under look-back rule [subsection 66(12.66)]	304	
Add: amount transferred on amalgamation or windup of subsidiary (Note 7)	305	355
Add: amount transferred other than on amalgamation or windup of subsidiary		357
Add: other additions	310	
Deduct: reclassified Canadian development expenses under subsections 66.1(9) and 66.7(9)	315	365
Deduct: government assistance and grants	320	
Deduct: receivable on disposition of underground oil and gas storage rights or mining property	325	
Deduct: credit balance in the cumulative Canadian oil and gas property expense pool	330	380
Deduct: other deductions or transfers	335	385
Deduct: amount transferred on disposition of resource property to successor	340	390
Deduct: current and previous-year Canadian development expenses renounced in the year under a flow-through share agreement	343	
Deduct: expenses renounced under look-back rule [subsection 66(12.66)]	344	
Amount available (Note 8)	59,622 S	T
Deduction in respect of the accelerated Canadian development expense*: Accelerated Canadian development expense, less reductions to this expense x 15.000 %		
Deduct: current-year claim under subsections 66.2(2) and 66.7(4) (Note 9)	345 17,887	395
Closing balance	349 41,735	399

Claim for the year under subsection 66.2(2) (from line 345) 17,887 U
 Claim for the year under subsection 66.7(4) (from line 395) V
Canadian development expenses (amount U plus amount V) 17,887 W
 Enter amount W on line 340 of Schedule 1.

Note 7. Canadian development expenses transferred on amalgamation or windup to which subsections 87(1.2) and 88(1.5) apply should be entered in the "Regular expenses" column, if the expenses were regular expenses in the hands of the amalgamating company or the subsidiary being wound up.

Note 8. - When there is no designation under subparagraph 66.7(4)(a)(iii) and amount T is negative, enter it on line 335 and enter "0" on lines 395 and 399.

When a designation under subparagraph 66.7(4)(a)(iii) has been made and amount T is negative, enter it online 440 in Part 6, and enter "0" on lines 395 and 399. If this results in amount X of Part 6 being negative, enter that amount on line 330.

- If amount S is negative, include it as income in the "Other additions" area on page 3 of Schedule 1 and enter "0" on lines 345 and 349.

Note 9. The maximum deduction is 30% of amount S plus the lesser of:

- 30% of amount T; and

- the amount determined under paragraph 66.7(4)(b).

For a tax year of less than 51 weeks, 30% is prorated, based on the number of days in the tax year divided by 365.

* For more information, consult the Help (F1).

Net Income (Loss) for Income Tax Purposes

• The purpose of this schedule is to provide a reconciliation between the corporation's net income (loss) as reported on the financial statements and its net income (loss) for tax purposes. For more information, see the *T2 Corporation Income Tax Guide*.

- All legislative references are to the *Income Tax Act*.

Add:

Other expenses from financial statements

- for resource loss

- others

Total

41,842

230

41,842

41,842 F

Total of lines 201 to 249 and line 296

Enter amount F on line 199.

Deduct:

Resource deductions:

Canadian development expenses from Schedule 12

340

17,887

Total of lines 300 to 345, 347 to 349, and line 396.

17,887 G

Enter amount G on line 499.



Corporation Loss Continuity and Application

Corporation's name AVALON ENERGY LTD.	Business number 127291524 RC 0001	Tax year-end Year Month Day 2019/02/28
---	---	---

- Use this form to determine the continuity and use of available losses; to determine a current-year non-capital loss, farm loss, restricted farm loss, or limited partnership loss; to determine the amount of restricted farm loss and limited partnership loss that can be applied in a year; and to ask for a loss carryback to previous years.
- A corporation can choose whether or not to deduct an available loss from income in a tax year. The corporation can deduct losses in any order. However, for each type of loss, deduct the oldest loss first.
- According to subsection 111(4) of the *Income Tax Act*, when control has been acquired, no amount of capital loss incurred for a tax year ending before that time is deductible in computing taxable income in a tax year ending after that time. Also, no amount of capital loss incurred in a tax year ending after that time is deductible in computing taxable income of a tax year ending before that time.
- When control has been acquired, subsection 111(5) provides for similar treatment of non-capital and farm losses, except as listed in paragraphs 111(5)(a) and (b).
- For information on these losses, see the *T2 Corporation - Income Tax Guide*.
- File one completed copy of this schedule with the T2 return, or send the schedule by itself to the tax centre where the return is filed.
- All legislative references are to the *Income Tax Act*.

Part 1 - Non-capital losses

Determination of current-year non-capital loss

Net income (loss) for income tax purposes 180,312 A

Deduct: (increase a loss)

Net capital losses deducted in the year (enter as a positive amount) a
 Taxable dividends deductible under section 112 or subsections 113(1) or 138(6) b
 Amount of Part VI.1 tax deductible under paragraph 110(1)(k) c
 Amount deductible as prospector's and grubstaker's shares - Paragraph 110(1)(d.2) d
 Subtotal (total of amounts a to d) B
 Subtotal (amount A minus amount B; if positive, enter "0") C

Deduct: (increase a loss)

Section 110.5 or subparagraph 115(1)(a)(vii) - Addition for foreign tax deductions D
 Subtotal (amount C minus amount D) E

Add: (decrease a loss)

Current-year farm loss (the lesser of: the net loss from farming or fishing included in income and the non-capital loss before deducting the farm loss) F
 Current-year non-capital loss (amount E plus amount F; if positive, enter "0") G
 If amount G is negative, enter it on line 110 as a positive.

Continuity of non-capital losses and request for a carryback

Non-capital loss at the end of the previous tax year 237,163 e
 Deduct: Non-capital loss expired (note 1) **100** f
 Non-capital losses at the beginning of the tax year (amount e minus amount f) 237,163 H

Add:

Non-capital losses transferred on an amalgamation or on the wind-up of a subsidiary (note 2) corporation **105** g
 Current-year non-capital loss (from amount G) **110** h
 Subtotal (amount g plus amount h) I
 Subtotal (amount H plus amount I) 237,163 J

Note 1: A non-capital loss expires as follows:

- after 10 tax years if it arose in a tax year ending after March 22, 2004, and before 2006; and
- after 20 tax years if it arose in a tax year ending after 2005.

An allowable business investment loss becomes a net capital loss after 10 tax years if it arose in a tax year ending after March 22, 2004.

Note 2: Subsidiary is defined in subsection 88(1) as a taxable Canadian corporation of which 90% or more of each class of issued shares are owned by its parent corporation and the remaining shares are owned by persons that deal at arm's length with the parent corporation.

Part 1 - Non-capital losses (continued)**Deduct:**Other adjustments (includes adjustments for an acquisition of control) **150** iSection 80 - Adjustments for forgiven amounts **140** jNon-capital losses of previous tax years applied in the current tax year **130** 180,112 k
Enter amount k on line 331 of the T2 Return.Current and previous year non-capital losses applied against current-year
taxable dividends subject to Part IV tax (note 3) **135** l

Subtotal (total of amounts i to l) 180,112 ▶ 180,112 K

Non-capital losses before any request for a carryback (amount J minus amount K) 57,051 L

Deduct - Request to carry back non-capital loss to:First previous tax year to reduce taxable income **901** mSecond previous tax year to reduce taxable income **902** nThird previous tax year to reduce taxable income **903** oFirst previous tax year to reduce taxable dividends subject to Part IV tax **911** pSecond previous tax year to reduce taxable dividends subject to Part IV tax **912** qThird previous tax year to reduce taxable dividends subject to Part IV tax **913** r

Total of requests to carry back non-capital losses to previous tax years (total of amounts m to r) ▶ M

Closing balance of non-capital losses to be carried forward to future tax years (amount L minus amount M) **180** 57,051 NNote 3: Amount l is the total of lines 330 and 335 from Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*.**Part 2 - Capital losses****Continuity of capital losses and request for a carryback**Capital losses at the end of the previous tax year **200** 44,711 aCapital losses transferred on an amalgamation or on the wind-up of a subsidiary
corporation **205** b

Subtotal (amount a plus amount b) 44,711 ▶ 44,711 A

Deduct:Other adjustments (includes adjustments for an acquisition of control) **250** cSection 80 - Adjustments for forgiven amounts **240** d

Subtotal (amount c plus amount d) ▶ B

Subtotal (amount A minus amount B) 44,711 C

Add: Current-year capital loss (from the calculation on Schedule 6, *Summary of Dispositions of Capital Property*) **210** 193,318 D

Unused non-capital losses that expired in the tax year (note 4) e

Allowable business investment losses (ABILs) that expired as non-capital
losses at the end of the previous tax year (note 5) fEnter amount e or f, whichever is less **215** gABILs expired as non-capital losses: line 215 multiplied by 2.0000 **220** E

Subtotal (total of amounts C to E) 238,029 F

NoteIf there has been an amalgamation or a wind-up of a subsidiary, do a separate calculation of the ABIL expired as
non-capital loss for each predecessor or subsidiary corporation. Add all these amounts and enter the total on line 220 above.Note 4: If the loss was incurred in a tax year ending after March 22, 2004, determine the amount of the loss from the 11th previous tax year
and enter the part of that loss that was not used in previous years and the current year on line e.Note 5: If the ABILs were incurred in a tax year ending after March 22, 2004, enter the amount of the ABILs from the 11th previous tax year.
Enter the full amount on line f.

Part 2 - Capital losses (continued)

Deduct: Capital losses from previous tax years applied against the current-year net capital gain (note 6) **225** G
 Capital losses before any request for a carryback (amount F minus amount G) **238,029** H

Deduct - Request to carry back capital loss to (note 7):

First previous tax year **951** h
 Second previous tax year **952** i
 Third previous tax year **953** j
 Subtotal (total of amounts h to j) **I**
 Closing balance of capital losses to be carried forward to future tax years (amount H minus amount I) **280** **238,029** J

Note 6: To get the net capital losses required to reduce the taxable capital gain included in the net income (loss) for the current-year tax, enter the amount from line 225 divided by 2 at line 332 of the T2 return.

Note 7: On line 225, 951, 952, or 953, whichever applies, enter the actual amount of the loss. When the loss is applied, divide this amount by 2. The result represents the 50% inclusion rate.

Part 3 - Farm losses**Continuity of farm losses and request for a carryback**

Farm losses at the end of the previous tax year a
Deduct: Farm loss expired (note 8) **300** b
 Farm losses at the beginning of the tax year (amount a minus amount b) **302** A

Add:

Farm losses transferred on an amalgamation or on the wind-up of a subsidiary corporation **305** c
 Current-year farm loss (amount F in Part 1) **310** d
 Subtotal (amount c plus amount d) **B**
 Subtotal (amount A plus amount B) **C**

Deduct:

Other adjustments (includes adjustments for an acquisition of control) **350** e
 Section 80 - Adjustments for forgiven amounts **340** f
 Farm losses of previous tax years applied in the current tax year **330** g
 Enter amount g on line 334 of the T2 Return.
 Current and previous year farm losses applied against current-year taxable dividends subject to Part IV tax (note 9) **335** h
 Subtotal (total of amounts e to h) **D**
 Farm losses before any request for a carryback (amount C minus amount D) **E**

Deduct - Request to carry back farm loss to:

First previous tax year to reduce taxable income **921** i
 Second previous tax year to reduce taxable income **922** j
 Third previous tax year to reduce taxable income **923** k
 First previous tax year to reduce taxable dividends subject to Part IV tax **931** l
 Second previous tax year to reduce taxable dividends subject to Part IV tax **932** m
 Third previous tax year to reduce taxable dividends subject to Part IV tax **933** n
 Subtotal (total of amounts i to n) **F**
 Closing balance of farm losses to be carried forward to future tax years (amount E minus amount F) **380** **G**

Note 8: A farm loss expires as follows:

- after 10 tax years if it arose in a tax year ending before 2006; and
- after 20 tax years if it arose in a tax year ending after 2005.

Note 9: Amount h is the total of lines 340 and 345 from Schedule 3.

Corporation's name AVALON ENERGY LTD.	Business number 127291524 RC 0001	Tax year-end Year Month Day 2019/02/28
---	---	---

Continuity of Losses Carried Forward

SCHEDULE 4 - Federal Supplement

Non-capital losses

Applied to reduce

Year of Origin	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I and IV	Taxable Income	Part IV tax	Balance at end of year
Current year	N/A				N/A		<NIL>
1st preceding year 2018/02/28		N/A		N/A			<NIL>
2nd preceding year 2017/02/28	133,074	N/A		N/A	76,023		57,051
3rd preceding year 2016/02/29		N/A		N/A			<NIL>
4th preceding year 2015/02/28	104,089	N/A		N/A	104,089		<NIL>
5th preceding year 2014/02/28		N/A		N/A			<NIL>
6th preceding year 2013/02/28		N/A		N/A			<NIL>
7th preceding year 2012/02/29		N/A		N/A			<NIL>
8th preceding year 2011/02/28		N/A		N/A			<NIL>
9th preceding year 2010/02/28		N/A		N/A			<NIL>
10th preceding year 2009/02/28		N/A		N/A			<NIL>
11th preceding year 2008/02/29		N/A		N/A			<NIL>
12th preceding year 2007/02/28		N/A		N/A			<NIL>
13th preceding year 2006/02/28		N/A		N/A			<NIL>
14th preceding year 2005/02/28		N/A		N/A			<NIL>
15th preceding year 2004/02/29		N/A		N/A			<NIL>
16th preceding year 2003/02/28		N/A		N/A			<NIL>
17th preceding year 2002/02/28		N/A		N/A			<NIL>
18th preceding year 2001/02/28		N/A		N/A			<NIL>
19th preceding year 2000/02/29		N/A		N/A			<NIL>
20th preceding year 1999/02/28		N/A		N/A			<NIL>
Total	237,163	<NIL>	<NIL>	<NIL>	180,112	<NIL>	57,051

* This balance expires this year and will not be available next year.