STRONGBOW RESOURCES INC

FINANCIAL STATEMENTS

MAY 31, 2016

BALANCE SHEETS

STATEMENTS OF OPERATIONS

STATEMENTS OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

STRONGBOW RESOURCES INC.
BALANCE SHEETS

	May 31, 2016	February 29, 2016
	$	$
	(Unaudited)	
ASSETS		
Current assets		
Cash	2,410	22,426
Receivable	4,198	3,279
Prepaid expense and other	13,256	7,809
Due from related party	87,319	-
	107,183	33,514
Non-current assets		
Deposit	33,324	32,224
Equipment	58,228	57,236
Oil and gas properties, full cost method	586,449	568,151
	785,184	**691,125**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	491,647	632,983
Accrued liabilities	118,234	99,765
Due to related parties	337,497	334,869
Notes payable	19,070	18,475
Convertible debenture	4	-
Derivative financial liabilities – warrants	293,955	150,136
Derivative financial liabilities – conversion feature	195,691	-
Subscriptions received	-	50,000
	1,456,098	1,286,228
Asset retirement obligation	23,170	21,900
	1,479,268	1,308,128
Stockholders' deficit		
Capital stock		
Authorized:		
750,000,000 common shares, par value $0.001 per share		
Issued and outstanding:		
31,082,567 common shares (30,029,046 at February 29, 2016)	22,973	21,919
Additional paid in capital	3,190,876	3,115,078
Accumulated other comprehensive loss	(153,170)	(133,280)
Accumulated deficit	(3,754,763)	(3,620,720)
	(694,084)	(617,003)
	785,184	**691,125**

The accompanying notes are an integral part of these financial statements

STRONGBOW RESOURCES INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended May 31,	
	2016	**2015**
	$	**$**
General and administrative expenses		
Accretion	570	543
Consulting	25,481	14,414
Depreciation	859	902
Management fees	23,079	24,225
Office, travel and general	(4,832)	10,092
Professional fees	16,024	21,960
Salaries and benefits	-	37,211
Loss from operations	(61,181)	(109,347)
Gain on settlement of debt	60,232	-
Interest expense	(73,831)	-
Interest income	62	49
Gain (loss) on fair value adjustment of derivative financial liabilities	(59,325)	122,236
Net income (loss)	(134,043)	12,938
Foreign currency translation	(19,890)	(2,714)
Comprehensive income (loss)	(153,933)	10,224
Basic and diluted income (loss) per share	(0.00)	0.00
Weighted average number of basic and diluted common shares outstanding	30,621,927	29,881,824

The accompanying notes are an integral part of these financial statements

STRONGBOW RESOURCES INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the three months ended May 31,	
	2016	2015
	$	$
Cash flows used in operating activities		
Net income (loss)	(134,043)	12,938
Non-cash items		
Accretion	570	543
Gain on settlement of debt	(60,232)	-
Gain on fair value adjustment of derivative financial liabilities	59,325	(122,236)
Depreciation	859	902
Interest income	(62)	-
Interest expense	73,831	-
Foreign exchange	(120)	-
Changes in non-cash working capital items		
Receivable	(820)	2,634
Prepaid expenses and other	(5,240)	(11,636)
Accounts payable and accrued liabilities	(25,151)	71,410
Cash used in operating activities	(91,083)	(45,445)
Cash flows used in investing activities		
Expenditures on oil and gas properties	-	(3,323)
Cash used in investing activities	-	(3,323)
Cash flows from financing activities		
Subscription received	-	8,041
Issuance of convertible debenture	200,000	-
Net proceeds from (repaid to) related parties	(96,288)	22,108
Cash provided by financing activities	103,712	30,149
Effect of foreign exchange	(32,645)	(2,316)
Change in cash	(20,016)	(20,935)
Cash, beginning of period	22,426	26,858
Cash, end of period	2,410	5,923

The accompanying notes are an integral part of these financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Strongbow Resources Inc. (the "Company") was incorporated in the State of Nevada on July 9, 2004. The Company focuses its business efforts on the acquisition, exploration, and development of oil and gas properties.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As of May 31, 2016, the Company has not achieved profitable operations, has incurred losses in developing its business, and further losses are anticipated. The Company has an accumulated deficit of $3,754,763.

As at May 31, 2016, two Statements of Claim totaling $214,936 (CAD$281,781) are outstanding against the Company and is recorded in accounts payable.

The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its obligations and pay its liabilities when they come due. To date, the Company has funded operations through the issuance of capital stock and debt. Management plans to continue raising additional funds through equity or debt financings and loans from directors. There is no certainty that further funding will be available as needed. These factors raise substantial doubt about the ability of the Company to continue operating as a going concern. The ability of the Company to continue its operations as a going concern is dependent upon its ability to raise sufficient new capital to fund its operating commitments and ongoing losses and ultimately on generating profitable operations. The financial statements do not include any adjustments to be recorded to assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The unaudited interim financial statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). They do not include all information and footnotes required by GAAP for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the financial statements for the year ended February 28, 2016 included in the Company's Annual Report on Form 10-K filed with the SEC. The interim unaudited financial statements should be read in conjunction with those financial statements included in the 10-K report. In the opinion of management, all adjustments considered necessary for fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended May 31, 2016 are not necessarily indicative of the results that may be expected for the year ending February 28, 2017.

Recent Accounting Pronouncements
Recent pronouncements with future effect dates are either not applicable or are not expected to be significant to the financial statements of the Company.

3. OIL AND GAS PROPERTIES

Effective February 21, 2012, the Company entered into a Farmout Agreement (the "Agreement") with Harvest Operations Corp. ("Farmor"). The Agreement provided for the Company's acquisition of an undivided 100% working interest ("Working Interest") in a petroleum and natural gas license covering land located in the Compeer Area in the Province of Alberta, Canada (the "Farmout Lands").

To earn the Working Interest the Company was required to drill, complete, equip or abandon a test well on the Farmout Lands ("Test Well"). On March 14, 2012, the Company obtained operator status and was transferred the well license relating to the Test Well.

The Company's Working Interest in the Farmout Lands will be held subject to a non-convertible overriding royalty payable to the Farmor ("Farmor's Royalty"). The Farmor's Royalty on net crude oil revenues will be measured on a sliding scale from 5% to 15% over a range of production volumes from 1 to 150 barrels per day. The Farmor's Royalty on net gas and other petroleum product revenues is 15%.

The Test Well was spudded on May 27, 2012, and on September 5, 2012, the Company received an earning notice granting the Company a 100% working interest in the Farmout Lands.

During the three months ended May 31, 2016, net proceeds of $nil (May 31, 2015 - $nil) were received from the sales of oil less direct costs of $nil (May 31, 2015 - $6,102) were added to the carrying value of the oil and gas properties.

As of May 31, 2016, the Company has incurred $586,449 (February 29, 2016 - $568,151) in exploration costs to drill, complete and equip the Test Well, net of impairment charges in prior periods.

As at May 31, 2016, the Company has $33,324 (February 29, 2016 - $32,224) in bonds held with the Alberta Energy Regulator for its oil and gas properties.

4. EQUIPMENT

	May 31, 2016		
	Cost	Accumulated Depreciation	Net Book Value
	$	**$**	**$**
Oil and gas equipment	68,165	9,937	**58,228**

	February 29, 2016		
	Cost	Accumulated Depreciation	Net Book Value
	$	**$**	**$**
Oil and gas equipment	66,038	8,802	**57,236**

5. ACCOUNTS PAYABLE

During the three months ended May 31, 2016, the Company issued 353,521 common shares with a fair value of $35,352 to settle accounts payable of $95,584 (CAD$123,733). As a result, the Company recorded a gain on settlement of debt of $60,232.

6. NOTES PAYABLE

As at May 31, 2016, the Company had $19,070 (CAD$25,000) (February 29, 2016 - $18,475 (CAD$25,000)) in short term note obligations to an unrelated party. The note payable is unsecured, non-interest bearing and payable upon demand.

7. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation consists of reclamation and closure costs associated with the Test Well in the Farmout Lands. The asset retirement obligation was estimated based on the Company's understanding of its requirements to reclaim currently disturbed areas. Significant reclamation and closure activities include land rehabilitation, water, removal of building and well facilities and tailings reclamation.

The undiscounted estimate of this liability was $38,464 (CAD$50,000) (February 29, 2016 - $36,950 (CAD$50,000)) reflecting payments commencing in 2024. This estimate was adjusted for an inflation rate of 2.00% and then discounted at a rate of 10.00% for a net present value of $23,170 (CAD$30,375) (February 29, 2016 - $21,900 (CAD$29,660)) as at May 31, 2016.

8. CONVERTIBLE DEBENTURE AND DERIVATIVE FINANCIAL LIABILITIES

On May 17, 2016, the Company entered into a secured convertible debenture (the "Debenture") with the Lender. Under the Debenture, the Lender agreed to lend to the Company $200,000. The maturity date under the Debenture is November 17, 2016 (the "Maturity Date"). The Debenture has an effective interest rate of 6,811%, which was due primarily to the recording of non-cash accretion interest. At the discretion of the Lender, the principal and accrued but unpaid interest under the Debenture may be converted into units of the Company at $0.20 per unit at any time until the Maturity Date. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.40 per share for a period of two years.

The conversion feature was determined to be derivative; therefore, at initial measurement, the proceeds were allocated to the conversion feature and any residual proceeds to the principal. At issuance date, the fair value of the conversion feature was $199,999 and a value of $1 was allocated to the principal.

During the three months ended May 31, 2016, the Company recognized accretion expense of $4 (May 31, 2015 - $Nil).

At May 31, 2016, the fair value of the derivative liability associated with the conversion feature was $195,691 (February 29, 2016 - $nil). During the three month period ended May 31, 2016, a gain on fair value adjustment of $4,309 (2015 - $nil) was recognized.

In consideration for the Debenture, the Company issued to the Lender 200,000 units. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.40 per share for a period of two years. The warrants were determined to be derivatives. At issuance date, the fair value of the common shares and warrants was $73,831. Refer to Note 9 for the assessment on warrants.

The fair value of the conversion feature was calculated using the Black-Scholes Option Pricing Model at the issuance date, and was revalued at the reporting dates using the following assumptions:

	May 31, 2016	**May 17, 2016**
Volatility	129% - 150%	129% - 150%
Risk-free interest rate	0.40% - 0.82%	0.49% - 0.87%
Expected life	0.5 year - 2 years	0.47 year – 1.96 years
Dividend yield	nil	nil

9. DERIVATIVE FINANCIAL LIABILITIES - WARRANTS

	$
Balance, February 28, 2015	379,463
Fair value adjustment	(229,327)
Balance, February 29, 2016	150,136
Warrants issued	82,321
Warrants amendment (Note 10)	84,099
Fair value adjustment	(22,601)
Balance, May 31, 2016	293,955

The derivative liability consists of the fair value of share purchase warrants that were issued in unit private placements that have an exercise price in a currency other than the functional currency of the Company. The derivative liability is a non-cash liability as the Company will not be required to expend any cash.

The fair value of the warrants issued and amended during the three months ended May 31, 2016 was determined using the Black-Scholes Option Pricing Model using the following weighted average market assumptions:

	May 31, 2016
Volatility	192%
Risk-free interest rate	0.01%
Expected life	2.64 years
Dividend yield	nil

At May 31, 2016, the fair value of the warrants was determined using the Black-Scholes Option Pricing Model using the following weighted average market assumptions:

	May 31, 2016	February 29, 2016
Volatility	162%	235%
Risk-free interest rate	1.10%	0.68%
Expected life	2.83 years	1.43 years
Dividend yield	nil	nil

10. SHARE CAPITAL

During the three months ended May 31, 2016:

In March 2016, the Company issued 500,000 units at a price of $0.10 per unit for gross proceeds of $50,000. Each unit consists of one common share of the Company and one common share purchase warrant, with each warrant being exercisable into one additional share at an exercise price of $0.40 for a period of three years.

In May 2016, the Company issued 353,521 common shares with a fair price of $0.10 per share to settle accounts payable of $95,584 (Note 5).

In May 2016, the Company issued 200,000 units with a fair price of $0.21 per share in regards to the secured convertible debenture (Note 8).

During the year ended February 29, 2016:

In August 2015, the Company issued 22,222 common shares at CAD $0.45 for gross proceeds of $7,606 (CAD$10,000) in subscriptions for a private placement.

In January 2016, the Company issued 125,000 common shares to a former officer for an employment contract entered in April 2015. The fair value of the shares issued was $37,500, and is included in salaries and benefits.

Warrants

Below is a summary of the common share purchase warrant transactions:

	Number of Warrants	Weighted Average Exercise Price per Warrant
Outstanding at **February 29, 2016**	1,080,000	$ 0.48
Issued	700,000	0.40
Number of warrants at **May 31, 2016**	1,780,000	0.45

A summary of the common share purchase warrants outstanding and exercisable at May 31, 2016 is as follows:

Exercise Price US$	Number Outstanding	Expiry Date
1.50	80,000	August 26, 2016
0.40	200,000	May 17, 2018
0.40	1,000,000	March 8, 2019
0.40	500,000	March 9, 2019
	1,780,000	

The weighted average exercise price is $0.45 and weighted average life of the warrants is 2.57 years.

Stock Options

The Company's Stock Option Plan allows a maximum 5,579,335 shares to be reserved for issuance under the plan. Options granted under the plan may not have a term exceeding 10 years and vesting provisions are at the discretion of the Board of Directors.

In November 2015, the Company granted 2,600,000 stock options for a period of five years, valued at $0.04 per option for a total value of $107,172 calculated using the Black-Scholes Option Pricing Model assuming a life expectancy of five years, a risk free rate of 1.59%, a forfeiture rate of 0%, and volatility of 168%.

During the three months ended May 31, 2016, 300,000 stock options expired unexercised.

A summary of the stock options outstanding and exercisable at May 31, 2016 is as follows:

Exercise Price	**Number Outstanding and Exercisable**	**Expiry Date**	**Aggregate Intrinsic Value**
$			**$**
0.10	2,300,000	November 3, 2020	241,500

As at May 31, 2016, the remaining contractual life of the stock options outstanding was 4.43 years.

The aggregate intrinsic value in the proceeding table represents the total intrinsic value, based on the Company's closing stock price of $0.21 per share as of May 31, 2016.

11. RELATED PARTY TRANSACTIONS

During the three months ended May 31, 2016, the Company

- Incurred a total of $23,079 (May 31, 2015 - $24,225) in management fees to a director and officer of the Company.
- Incurred a total of $nil (May 31, 2015 - $2,301) in consulting fees to a director and officer of the Company.

As at May 31, 2016, $23,079 (CAD$30,000) (February 29, 2016 - $22,170 (CAD$30,000)) was owing to the former chief operating officer of the Company and has been included in accrued liabilities. This amount is non-interest bearing and unsecured.

As at May 31, 2016, $87,319 (February 29, 2016 - $nil) was owing from a director of the Company and a company with a common director. This amount is non-interest bearing, unsecured and payable upon demand.

Due to related parties consist of the following:

	May 31, 2016	**February 29, 2016**
	$	$
Due to directors and officers of the Company	337,497	334,869