

Extractive Sector Transparency Measures Act - Annual Report

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|--|------------------------|----------|--|-------------|-----------------------|-----------|
| Reporting Entity Name | Saguaro Resources Ltd. | | | | | |
| Reporting Year | From | 1/1/2017 | To: | 31/12/2017 | Date submitted | 5/30/2018 |
| Reporting Entity ESTMA Identification Number | E223715 | | <input checked="" type="radio"/> Original Submission <input type="radio"/> Amended Report | | | |
| Other Subsidiaries Included (optional field) | | | | | | |
| Not Consolidated | | | | | | |
| Not Substituted | | | | | | |
| Attestation Through Independent Audit | | | | | | |
| <p><i>In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.</i></p> <p><i>The auditor expressed an unmodified opinion, dated 2018-05-30, on the ESTMA Report for the entity(ies) and period listed above.</i></p> <p><i>The independent auditor's report can be found at At End of Report.</i></p> | | | | | | |
| Full Name of Director or Officer of Reporting Entity | Stacy Knull | | | Date | 5/30/2018 | |
| Position Title | President & CEO | | | | | |

Reporting Entities May
Insert Their Brand/Logo here

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|---|------------------------|-----------------------|--|--|-------------------------------|-----|
| Reporting Year | From: 1/1/2017 | To: 31/12/2017 | | | | |
| Reporting Entity Name | Saguaro Resources Ltd. | | | | Currency of the Report | CAD |
| Reporting Entity ESTMA Identification Number | E223715 | | | | | |
| Subsidiary Reporting Entities (if necessary) | | | | | | |

Payments by Payee

| Country | Payee Name ¹ | Departments, Agency, etc... within Payee that Received Payments ² | Taxes | Royalties | Fees | Production Entitlements | Bonuses | Dividends | Infrastructure Improvement Payments | Total Amount paid to Payee | Notes ³ |
|---------|------------------------------|--|---------|-----------|-----------|-------------------------|---------|-----------|-------------------------------------|----------------------------|--------------------|
| Canada | Province of British Columbia | Minister of Finance Ministry of Natural Gas Development Safety Authority Oil and Gas Commission | 270,000 | 2,990,000 | 1,180,000 | - | 650,000 | - | - | 5,090,000 | |

Additional Notes³:

- Taxes : includes property taxes, field office business taxes and orphan well taxes.
- Royalties : consists of cash royalties. The Corporation does not pay royalties in-kind and does not have any other in-kind payments.
- Fees : includes rental fees, administration fees, regulatory charges, as well as fees or other consideration for licenses, permits or concessions.
- Bonuses : consists of crown land purchases.
- This report is presented in Canadian dollars (\$ or C\$), which is the Corporation's functional reporting currency. Foreign currency payments are translated into Canadian dollars at exchange rates prevailing at the dates of the associated payments. There were no foreign currency payments made in the current year.
- Payments on the report have been rounded to the nearest \$10,000.

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| Reporting Entity ESTMA Identification Number | E223715 | |
| Subsidiary Reporting Entities (if necessary) | | |
| Currency of the Report | CAD | |

Payments by Project

| Country | Project Name ¹ | Taxes | Royalties | Fees | Production Entitlements | Bonuses | Dividends | Infrastructure Improvement Payments | Total Amount paid by Project | Notes ³ |
|---------|---------------------------|---------|-----------|-----------|-------------------------|---------|-----------|-------------------------------------|------------------------------|--------------------|
| Canada | Montney-Laprise | 270,000 | 2,990,000 | 1,180,000 | - | 650,000 | - | - | 5,090,000 | |

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INTRODUCTION

Saguaro Resources Ltd. (the “Company” or Saguaro) has prepared the following report (“the Report”) of payments made to government entities for the year ended December 31, 2017 as required by the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s.376 (“ESTMA” or “the Act”).

BASIS OF PREPARATION

The report is presented in Canadian Dollars and has been prepared in accordance with the requirements of the Act and the Natural Resources Canada (“NRCan”) Technical Reporting Specifications.

The following is a summary of significant policies and judgments that the Company has made for the purpose of preparing the report.

Significant policies

Cash and in-kind payments

Payments are reported on a cash basis and have been reported in the period in which the payment was made. In-kind payments are converted to an equivalent cash value based on cost or, if cost is not determinable, the in-kind payment is reported at the fair market value. For the year ended December 31, 2017, there were no in-kind payments.

Payments to the “same payee” that meet or exceed \$100,000 in one category of payment are disclosed. Payments are rounded to the nearest \$10,000.

The preparation of the Report in accordance with the Act includes evaluation of the substance, rather than the form, of payments.

Payee

For the purposes of the Act, a payee is:

- a. Any government in Canada or in a foreign state;
- b. A body that is established by two or more governments; or
- c. Any trust, board, commission, corporation or body or other authority that is established to exercise or perform, or that exercises or performs, a power, duty or function of a government for a government referred to in paragraph (a) above or a body referred to in paragraph (b) above.

Payees include governments at any level, including national, regional, state, provincial, local, or municipal levels. Payees may include non-governmental entities if the benefit bestowed would have otherwise been provided by the government. Payees also include any government-owned or government-controlled entities that exercise or perform a power, duty or function of government.

The Act deferred the requirement to report on payments made to Aboriginal governments in Canada until June 1, 2017. All reportable payments to these payees made on or after that date is included in the ESTMA report. The same analysis and considerations are used in determining when and how to report payments to Aboriginal governments as are used with any other government payee in Canada.

The individual department, agency or other body of the payee that received the payment has been disclosed in the notes section of the ESTMA Annual Report.

Reportable Payments

A reportable payment for ESTMA purposes is one that:

- a. Is made to the same payee;
- b. Is made in relation to the commercial development of oil, gas or minerals; and

- c. Totals, as a single or multiple payments, \$100,000 or more in the year, in one of the following prescribed seven payment categories.

Taxes

This category includes taxes paid by the Company on its income, profits or production in relation to the commercial development of oil and gas resources. Taxes reported include property taxes, business taxes and certain provincial resource surcharges, such as the British Columbia orphan well tax. Consumption taxes, personal income taxes and taxes withheld by others on behalf of the Company are excluded as per the Act.

Royalties

Royalties are payments for the rights to extract oil and gas resources, typically at a set percentage of revenue. Both cash royalties and royalties paid in-kind are reported in this category. For the year ended December 2017, there were no royalties paid in-kind.

Fees

This category may include mineral and surface leases, gathering pipeline statutory rights of way, the British Columbia oil and gas levy, as well as fees or other consideration for licenses, permits or concessions. The fee category is broad and includes payments to payees that in substance is a fee. Amounts paid in ordinary course commercial transactions in exchange for services provided by a payee are excluded.

Production entitlements

A payee's share of oil, gas or mineral production under a production sharing agreement or similar contractual or legislated arrangement is reported under this category. For the year ended December 31, 2017, there were no reportable production entitlement payments to a payee.

Bonuses

Signing, discovery, production and any other type of bonuses, including crown land acquisition bonuses, paid to a payee in relation to the commercial development of oil and gas resources are reported under this category.

Dividends

Dividends are dividend payments, other than dividends paid to a payee as an ordinary shareholder of the Company on shares that were acquired by the payee on the same terms as were available at the time of acquisition to other shareholders that are not in lieu of any other reportable payment. For the year ended December 31, 2017, there were no reportable dividend payments to a payee.

Infrastructure improvement payments

This payment category consists of payments for the construction of infrastructure that do not relate primarily to the operational purposes of the Company. For the year ended December 31, 2017, there were no reportable infrastructure improvement payments to a payee.

Significant Estimates and Judgements

The preparation of the Report in accordance with the Act requires the use of judgements, estimates and assumptions.

Payments by Project Level

Payments have been reported at the project level as required by the Act. A "project" means the operational activities are governed by a single contract, license, lease, concession or similar legal agreement that forms the basis for a payment liability with a payee. If multiple such agreements are substantially interconnected, they would be considered a single project.

"Substantially interconnected" means forming a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government and give rise to payment liabilities.

The Company has determined that the operational activities governed by surface or mineral lease contracts related to key operational areas are substantially interconnected and has reported payments related to each such area as a single project. The Company has considered geographical location and common infrastructure as two key indicators for making this determination.

Commercial Development

The Act defines 'commercial development of oil, gas or minerals' as:

- a) The exploration or extraction of oil, gas or minerals;
- b) The acquisition or holding of a permit, license, lease or any other authorization to carry out any of the activities referred to in paragraph (a); or
- c) Any other prescribed activities in relation to oil, gas or minerals.

Payments made by the Company to payees relating to the commercial development of oil, gas or minerals ("commercial development") are disclosed in this Report. The Company's initial processing activities which are integrated with its extraction operations are included in commercial development.

Refunds, rebates and credits

Amounts paid to payees have been reported at the amount paid by the Company, including instances where an applicable credit reduces the amount payable, to reflect the net cash payment to the payee. Cash refunds or cash rebates received from payees have not been reported where they have not been applied as a credit to amounts owing.

Attribution of payments

Where a payment was made for the Company by another entity, such payment has been deemed to have been made by the Company and has been included in this Report. This may include payments not directly made to a payee, or was not received directly by the payee.

Whether a payment is made for the Company may be difficult to determine and depends on the facts and circumstances including legal and contractual requirements in various jurisdictions.

Payments made in situations of joint control

The Company reports all cash payments that it pays directly to a payee, and includes all amounts paid as an operator as part of an unincorporated joint arrangement (i.e. a working interest). This is the case even where the Company as the operator has been proportionally and directly reimbursed by its non-operating partners. In cases where the Company is the non-operator, an assessment has been made as to whether the operator has a responsibility to report ESTMA payments; if the operator does not have an ESTMA reporting responsibility, the Company has reported any payments made on the Company's behalf by the operator.

Acquisition and Divestiture Activities

Acquisitions

Payments to a payee made by the Company relating to the acquisition (for the commercial development of oil, gas or minerals), after the effective date of a corporate or asset acquisition have been included in this Report.

Divestitures

Payments to a payee made by the Company relating to the divestiture (for the commercial development of oil, gas or minerals), after the effective date and before the close date of a corporate or asset divestiture have been included in this Report.

Fair Market Value

Payments made to payees have been assessed to determine any excess paid over the fair market value of goods or services received from the payee. The excess, if applicable, has been included in the ESTMA report.

Social Payments

In determining whether a social payment is reportable, the Company has considered the nature, timing or extent of a payment, and whether one or more of these criteria are controlled by the payee, or if the criteria must be negotiated between the Company and a payee. For the year ended December 31, 2017, there were no such reportable payments.



May 30, 2018

Independent Auditor's Report

**To the Audit Committee
of Saguaro Resources Ltd.**

We have audited the accompanying Extractive Sector Transparency Measures Act – Annual Report of Saguaro Resources Ltd. which comprise the schedules of payments by payee and payments by project for the year ended December 31, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information (the “ESTMA Report”). The ESTMA Report has been prepared by management using the basis of accounting described in the notes, which is in accordance with the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s 376 (the “Act”).

Management's responsibility for the ESTMA Report

Management is responsible for the preparation of the ESTMA Report in accordance with the basis of accounting described in the notes, and for such internal controls as management determines is necessary to enable the preparation of an ESTMA Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the ESTMA Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the ESTMA Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the ESTMA Report 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 ESTMA Report.

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

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Opinion

In our opinion, the Extractive Sector Transparency Measures Act – Annual Report of Saguaro Resources Ltd. for the year ended December 31, 2017 is prepared, in all material respects, in accordance with the basis of accounting described in the notes.

Basis of accounting

Without modifying our opinion, we draw attention to the notes to the ESTMA Report, which describe the basis of accounting. The ESTMA Report is prepared to assist Saguaro Resources Ltd. in complying with the reporting requirements of the Act. As a result, the ESTMA Report may not be suitable for another purpose.

PricewaterhouseCoopers LLP

Chartered Professional Accountants