



HORIZON PETROLEUM LTD.

Condensed Consolidated Interim Financial
Statements
(Expressed in Canadian dollars)
Unaudited

As at May 31, 2019 and for the three and nine months
ended May 31, 2019 and 2018

NOTIFICATION OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine months ended May 31, 2019.

HORIZON PETROLEUM LTD.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

Unaudited

As at

	May 31, 2019	August 31, 2018 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 278,281	\$ 168,235
Receivables (note 5)	115,174	90,386
Prepaid expenses	19,629	16,293
	413,084	274,914
Acquisition deposit (note 14)	135,340	130,330
	\$ 548,424	\$ 405,244
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (notes 7 and 12)	\$ 191,924	\$ 433,056
	191,924	433,056
Decommissioning obligations (note 8)	954,926	959,989
	1,146,850	1,393,045
Shareholders' equity (deficiency):		
Share capital (note 9)	18,502,963	17,504,088
Reserve (note 10)	911,828	854,196
Deficit	(20,013,217)	(19,346,085)
	(598,426)	(987,801)
Going concern (note 1)		
Commitments (note 8)		
Significant transaction (note 14)		
	\$ 548,424	\$ 405,244

See accompanying notes to the condensed consolidated interim financial statements.

HORIZON PETROLEUM LTD.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)
Unaudited

	Three months May 31, 2019	Three months May 31, 2018	Nine months May 31, 2019	Nine months May 31, 2018
Expenses:				
Directors' fees (note 11)	\$ 21,000	\$ 21,000	\$ 63,000	\$ 63,000
Management fees (note 11)	70,906	107,333	228,037	227,833
Professional fees	80,040	12,400	192,304	183,419
Salaries and benefits	6,603	-	32,756	-
Office	12,735	7,338	32,238	34,930
Property investigation costs (note 6)	594	10,064	13,244	611,126
Rent	10,485	8,990	40,094	39,654
Shareholder communication	7,862	22,950	13,768	71,437
Investor relations	-	22,500	15,000	57,740
Transfer agent and regulatory fees	7,616	8,309	11,673	17,548
Travel and related costs	8,306	655	9,112	46,957
Share-based payments (note 10)	5,279	24,144	28,277	110,075
Foreign exchange loss	3,799	563	(6,421)	2,788
	(235,225)	(246,246)	(673,083)	(1,466,507)
Other Items:				
Interest income	2,013	1,947	5,951	8,011
Loss and comprehensive loss for the period	\$ (233,212)	\$ (244,299)	\$ (667,132)	\$ (1,458,496)
Basic and diluted loss per common share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.04)
Weighted average number of common shares outstanding	59,857,176	37,777,176	57,537,469	37,777,176

See accompanying notes to the condensed consolidated interim financial statements.

HORIZON PETROLEUM LTD.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

Unaudited

Nine months ended May 31,

	2019	2018
Cash provided by (used in):		
Operating activities		
Loss for the period	\$ (667,133)	\$(1,458,496)
Items not affecting cash:		
Share-based payments	28,277	110,075
Unrealized foreign exchange (gain) loss	(10,072)	(3,262)
Changes in non-cash working capital items	(225,137)	23,254
	(874,065)	(1,328,429)
Financing activities		
Shares issued for cash	1,104,000	-
Share issuance costs	(105,124)	-
Finders warrants	29,354	-
Changes in non-cash working capital items	(44,118)	-
	984,111	-
Investing activities		
Exploration and evaluation expenditures	-	(164,257)
Changes in non-cash working capital items	-	41,674
	-	(122,583)
Change in cash and cash equivalents during the period	110,046	(1,451,012)
Cash and cash equivalents, beginning of period	168,235	1,851,791
	\$ 278,281	\$ 400,779

See accompanying notes to the condensed consolidated interim financial statements.

HORIZON PETROLEUM LTD.

Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian dollars)
Unaudited

As at May 31, 2019 and 2018

	Number of shares	Share capital	Reserves	Deficit	Total
Balance, August 31, 2017	37,777,176	\$17,548,206	\$ 722,112	\$(16,407,385)	\$ 1,862,933
Loss for the period	—	—	—	(1,458,496)	(1,458,496)
Share-based payments	—	—	110,075	—	110,075
Balance, May 31, 2018	37,777,176	\$17,548,206	\$ 832,187	\$(17,865,881)	\$ 514,512
Balance, August 31, 2018	37,777,176	\$17,504,088	\$ 854,196	\$(19,346,085)	\$ (987,801)
Loss for the period	—	—	—	(667,132)	(667,132)
Shares issued for cash, net	22,080,000	998,875	—	—	998,875
Share-based payments	—	—	28,277	—	28,277
Warrants	—	—	29,355	—	29,355
Balance, May 31, 2019	59,857,176	\$18,502,963	\$ 911,828	\$(20,013,217)	\$ (598,426)

See accompanying notes to the condensed consolidated interim financial statements.

HORIZON PETROLEUM LTD.

Notes to Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

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As at May 31, 2019 and for the Three and Nine months ended May 31, 2019 and 2018

1. Corporate information and going concern:

Horizon Petroleum Ltd. ("Horizon" or the "Company") is incorporated in Alberta, Canada. The principal business of the Company is the acquisition, exploration, and development of oil and gas properties.

The head office of the Company is located at 1500, 700 4th Ave. SW, Calgary, Alberta, T2P 3J4. The registered and records office of the Company is located at 15th Floor, 850 – 2nd Street SW, Calgary, Alberta T2P 0R8.

The Company has not generated revenues from operations. These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. If this assumption were not appropriate, adjustments to these condensed consolidated interim financial statements may be necessary. Material uncertainties as to the Company's ability to obtain additional financing to fund future operations may cast significant doubt on the Company's ability to continue as a going concern. The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through financing or other sources, and there are no assurances that such financing will be obtained.

The Company has incurred losses since inception and is currently not generating any revenues except for interest income. For the nine months ended May 31, 2019 the Company used cash from operating activities of \$874,065 (2018 - \$1,328,429). At May 31, 2019 the Company's cash balance was \$278,281 (2018 - \$400,799) and the working capital position was \$221,160 (2018 – \$221,205).

2. Basis of presentation and statement of compliance:

These unaudited condensed consolidated interim financial statements were authorized for issue on July 30, 2019 by the directors of the Company.

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

These unaudited condensed consolidated interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited annual financial statements of the Company for the year ended August 31, 2018.

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3. Significant accounting policies:

The preparation of these unaudited condensed consolidated interim financial statements required management to make estimates and judgments and to form assumptions that affect the reported amounts of assets and liabilities. Management's estimates and judgments are continually evaluated and are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results may differ from these estimates. The significant accounting estimates and judgments applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in notes 3 and 5 to the Company's audited annual consolidated financial statements for the year ended August 31, 2018.

During the nine months ended May 31, 2019 the Company adopted IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments. The adoption of this policy had no effect on the financial statements for the period.

4. New accounting standards, amendments and interpretations:

The Company has not early adopted these standards and is currently assessing the impact these standards will have on its financial statements

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases, which will supersede IAS 17 – Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on September 1, 2019.

The extent of the impact of adoption of these standards has not yet been determined. However, due to the fact that the Company has no revenue and has minimal transactions, the impact on adoption at this time would be limited.

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5. Receivables:

The Company's receivables are as follows:

	May 31, 2019	August 31, 2018
Interest income	\$ 15,233	\$ 9,282
GST receivable	99,941	81,104
	<u>\$ 115,174</u>	<u>\$ 90,386</u>

6. Property investigation costs:

All property investigation costs are related to the investigation of oil and natural gas opportunities within Europe.

7. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities are as follows:

	May 31, 2019	August 31, 2018
Accounts payable	\$ 168,683	\$ 194,668
Due to related parties (note 11)	13,017	135,090
Accrued liabilities	10,224	103,298
	<u>\$ 191,924</u>	<u>\$ 433,056</u>

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8. Decommissioning obligations:

The Company has estimated the present value of the decommissioning obligations which exist in relation to its properties to May 31, 2019 based on the best available information regarding the timing and amount of expected expenditure and recorded a provision of \$954,926 (August 31, 2018 - \$959,989). During the August 31, 2018 year-end the estimated decommissioning obligation was reduced by \$1,884,986. This reduction in estimate was due to a new engineering report which reduced the scope of the work required. The present value of the future decommissioning obligation as at May 31, 2019 assumes decommissioning in 2020, a discount rate of 0%, and an inflation rate of 1.0%.

	May 31, 2019	August 31, 2018
Balance, beginning of period	\$ 959,989	\$2,802,697
Change in estimate	-	(1,884,986)
Foreign exchange	(5,063)	42,278
Balance, end of period	\$ 954,926	\$ 959,989

9. Share capital:

Authorized:

- Unlimited common shares without par value and an unlimited number of preferred shares without par value, all issued shares, consisting only of common shares that are fully paid.

During the nine months ended May 31, 2019 the Company:

- issued 22,080,000 common shares at \$0.05 per common share for gross proceeds totaling \$1,104,000 pursuant to the completion of two tranches of a non-brokered private placement. In conjunction with the issuance of the shares, the Company incurred share issuance costs of \$105,124 which included cash costs comprised of legal and filing fees of \$21,410 and finders' fees payments of \$54,360, as well as a non-cash cost of \$29,354 related to the valuation of the finders warrants discussed below. An additional \$44,118 of share issue costs were accrued during the August 31, 2018 year-end. In conjunction with the financing the Company issued 1,087,200 finder's warrant enabling the holder to acquire one additional common share for \$0.05 per share for a three-year period. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected life three years; volatility – 83%; dividend rate – nil; risk free interest rate – 1.72%.

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10. Reserves:

(a) Stock options:

(i) Option plan:

The Company has a stock option plan covering the grant of options to its directors, officers and employees. A limit of 10% of the issued and outstanding common shares base can be issued in stock options without shareholder approval. The stock option plan provides that the options are for a maximum term of ten years and that the option exercise price shall be for not less than the market price on the grant date.

As at May 31, 2019, the Company had the following outstanding stock options:

	Number of options	Weighted average exercise price
Balance, August 31, 2018	2,828,664	\$ 0.20
Expired	400,000	\$ 0.07
Balance, May 31, 2019	2,428,664	\$ 0.22
Number of options currently exercisable	1,820,331	\$ 0.26

The weighted average remaining contractual life for the share options outstanding as at May 31, 2019 is 3.48 years (August 31, 2018 – 3.80 years).

As at May 31, 2019, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of options	Exercise price	Expiry date
95,333	\$ 0.90	August 4, 2023
508,331	0.60	December 4, 2022
1,500,000	0.07	November 5, 2022
325,000	0.09	November 8, 2022
2,428,664	\$ 0.22	

(b) Share-based payments:

During the nine months ended May 31, 2019 the Company granted nil (May 31, 2018 – 2,225,000) stock options.

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10. Reserves (continued):

For the nine months ended May 31, 2019, the share-based payments expense recognized was \$28,277 (May 31, 2018 \$110,075).

The following assumptions were used for the Black-Scholes option pricing model:

	2019
Risk-free interest rate	1.63%
Expected life of options	5 years
Annualized volatility	164%
Dividend rate	0.00%
Forfeiture rate	0.00%

(c) Warrants:

Warrant transactions and the number of warrants are summarized as follows:

	<i>Number of Warrants</i>	<i>Weighted average exercise price</i>
<i>Balance, August 31, 2017</i>	1,324,973	\$0.26
Expired	767,640	\$0.12
Balance, May 31, 2018	557,333	\$ 0.45
Balance, August 31, 2018	-	-
Issued	1,087,200	\$0.05
Balance, May 31, 2019	1,087,200	\$0.05

The warrants outstanding at May 31, 2019 expire on September 26, 2021.

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11. Related party transactions:

The Company incurred the following expenses charged by key management personnel and companies controlled by key management personnel:

	Nine months May 31, 2019	Nine months May 31, 2018
Executive compensation (1) to (4)	\$ 183,000	\$ 259,333
Non-executive directors fees (5)	63,000	63,000
Share-based payments	28,277	110,075
	<u>\$ 274,277</u>	<u>\$ 432,408</u>

(1) Includes \$90,000 (2018 \$90,000) in management fees paid or accrued to the Company's current CEO.

(2) Includes \$75,000 (2018 \$58,333) in management fees paid or accrued to the Company's current interim CFO.

(3) Includes \$18,000 (2018 \$72,000) in management fees paid or accrued to the Company's former VP Business Development.

(4) Includes \$Nil (2018 - \$39,000) in professional fees paid or accrued to a company controlled by the former corporate secretary of the Company.

(5) Includes \$63,000 (2018 - \$63,000) in directors' fees paid or accrued to three non-executive directors of the Company.

Included in accounts payable and accrued liabilities as at May 31, 2019 is \$13,017 (August 31, 2018 - \$135,090) owing to related parties. All related party transactions were conducted on arm's length terms.

12. Financial instruments and risk management:

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:

- (a) Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- (b) Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantively the full term of the asset or liability; and
- (c) Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

All of the Company's financial instruments approximate their fair value as at May 31, 2019 and August 31, 2018 due to their short-term nature.

The Company does not have any financial instruments recognized at fair value. The carrying values of cash and cash equivalents, accounts receivables, acquisitions deposit, and accounts payable and accrued liabilities approximate their fair values because of their short terms to maturity.

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(Expressed in Canadian dollars)

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12. Financial instruments and risk management (continued):

(a) Financial instrument risk exposure and risk management:

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided below:

(b) Credit risk:

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and equivalents, accounts receivable and acquisition deposit. The Company limits the exposure to credit risk by only investing its cash with high credit quality financial institutions in business and saving accounts, and guaranteed investment certificates, which are available on demand by the Company. The carrying amount of cash and equivalents, accounts receivables and acquisition deposit represents the Company's maximum exposure to credit risk.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest bearing financial assets are comprised of cash and cash equivalents and acquisition deposit, which bear interest at fixed or variable rates. The Company is not exposed to material interest rate risk.

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As at May 31, 2019 and for the Three and Nine months ended May 31, 2019 and 2018

12. Financial instruments and risk management (continued):

(d) Foreign currency:

The Company is exposed to foreign currency risk as some of its cash and equivalents and accounts payable and accrued liabilities are held in US Dollars (USD), GBP and EURO. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The exposure of the Company's cash and cash equivalents does not have significant exposure to changes in exchange rates.

The exposure of the Company's accounts payable and accrued liabilities is as follows:

	May 31, 2019		August 31, 2018	
	Amount in Foreign Currency	Amount in CAD dollars	Amount in foreign currency	Amount in CAD dollars
United States dollars:				
Accounts payable and accrued liabilities	\$ 1,795	\$ 2,082	\$ (4,500)	\$ (6,407)
Euros:				
Accounts payable and accrued liabilities	5,863	9,359	33,317	51,618
GBP:				
Accounts payable and accrued liabilities	16,563	28,275	-	-
		\$ 39,716		\$ 45,211

(e) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, it will have sufficient capital in order to meet short term business requirements, after taking into account cash flows used in operations and the Company's holdings of cash. The Company's cash is currently invested in business accounts which are available on demand by the Company for its programs. As at May 31, 2019, the Company had cash and equivalents of \$278,218 to settle current liabilities of \$191,924. The Company will require further financings to cover its expected cash requirements for the next twelve months. (See note 1 to these financial statements).

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(Expressed in Canadian dollars)

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13. Capital management:

The Company's objectives when managing capital are:

To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to acquire, explore, and develop other mineral properties.

To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk of loss of principal.

To obtain the necessary financing to complete exploration and development of its properties, if and when it is required.

In the management of capital, the Company includes shareholders' equity in the definition of capital. The Company is not exposed to externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it, based on the level of funds required to manage its operations in light of changes in economic conditions and the risk characteristics of its underlying assets.

In order to maximize ongoing exploration and future development efforts, the Company does not pay dividends. Notwithstanding the risks described in note 1 of these financial statements, the Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives.

14. Significant transaction:

During June 2017, the Company entered into a memorandum of understanding ("MOU") regarding the acquisition of a 100% interest in up to five conventional oil and natural gas concessions in Poland from San Leon Energy plc ("SLE"). Subsequently, the Company entered into a series of definitive agreements with SLE, in September 2017, for the acquisition of the five concessions onshore Poland.

Under the terms of the MOU, the Company advanced US\$200,000 to the counterparty to cover certain obligations relating to the concessions going forward where such obligations would be assumed by the Company upon the completion of the transaction. US\$100,000 (Cdn\$133,608) of the option payment is non-refundable if the transaction is not completed due to any action or inaction on the part of the Company and has been expensed as part of property investigation costs for the year ended August 31, 2017, while the remaining US\$100,000 (Cdn\$135,340) was advanced as a loan which bears interest at the rate of 6% per annum.

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14. Significant transaction (continued)

Under the terms of the definitive agreements, the Company agreed to pay the following, in exchange for a 100% working interest in the Cieszyn and Bielsko-Biala concessions (the “Primary Concessions”) in Poland:

- 1) US\$1,000,000 in cash, less US\$100,000 previously advanced, for a net cash payment of US\$900,000;
- 2) Cdn\$1,000,000 in common shares in the capital of Horizon (“Horizon Shares”), based on Horizon meeting specific issuance terms. The Horizon Shares are to be issued at the lesser of a) Cdn\$0.20 per share, b) the lowest price per share at which Horizon completes an equity placement for a minimum of Cdn\$1 million, up to but not including the date of closing of the acquisition (the “Completion Date”), and c) the volume weighted average price per Horizon Share for the period of 10 trading days immediately prior to the Completion Date. If Horizon is unable to meet the specific issuance terms by the Completion Date, it will be required to pay to SLE the equivalent value of the Horizon Shares in cash; and
- 3) A 6% net profits interest.

The consideration for the acquisition of the other 3 concessions, being Kotlarka, Prusice, and Buchowice (the “Secondary Concessions”) is €10,000 per concession, plus a 6% net profits interest.

Under the terms of the definitive agreements there are two significant Polish Government approvals required before the acquisitions close. The first, approval of the Company as an operator qualified to conduct oil and natural gas activities in Poland, was met on April 30, 2019. The second, the conversion of the concessions to the new Polish concession laws, has not yet been met. The Company and SLE amended the terms of the acquisition to allow the acquisitions to close but to make the payment of the purchase consideration contingent upon the concessions being converted. Upon concession conversion we estimate there will be standard post closing adjustments owing by the Company to SLE of approximately \$280,000.

The Company and SLE agreed to extend the long stop date for the acquisition to July 31, 2019.