



HORIZON PETROLEUM LTD.

Consolidated Financial Statements  
(Expressed in Canadian dollars)

For the years ended August 31, 2020 and 2019

*Audit. Tax. Advisory.*

Independent Auditor's Report

To the Shareholders of Horizon Petroleum Ltd.

## **Opinion**

We have audited the consolidated financial statements of Horizon Petroleum Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2020 and 2019, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of cash flows and consolidated statements of changes in deficiency for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## **Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Material uncertainty related to going concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had a net cash outflow from operating activities for the year ended August 31, 2020 and, as of that date, the Company had a working capital deficiency. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## **Other information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Jessica Glendinning.

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
August 23, 2021

# HORIZON PETROLEUM LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at August 31, 2020 and 2019

	2020	2019
<b>Assets</b>		
Current assets:		
Cash	\$ 47,220	\$ 220,144
Receivables (Note 6)	3,057	36,730
Prepaid expenses	6,158	22,692
Inventory	2,875	14,126
Total current assets	59,310	293,692
Property investigation costs	-	11,979
Total assets	\$ 59,310	\$ 305,671
<b>Liabilities and Shareholders' Deficiency</b>		
Current liabilities:		
Accounts payable and accrued liabilities (Note 11)	\$ 426,965	\$ 246,294
Acquisition cost payable (Note 15)	2,623,516	2,655,701
Total current liabilities	3,050,481	2,901,995
Long term liabilities		
Decommissioning obligations (Note 8)	-	954,926
Total liabilities	3,050,481	3,856,921
Shareholders' deficiency:		
Share capital (Note 9)	18,471,426	18,471,426
Stock option reserve (Note 10)	875,955	878,625
Warrants (Note 10)	32,616	32,616
Deficit	(22,371,168)	(22,933,917)
Total shareholders' deficiency	(2,991,171)	(3,551,250)
Total liabilities and shareholders' deficiency	\$ 59,310	\$ 305,671

Going concern (Note 1)

Commitments and contingencies (Notes 15 and 16)

Subsequent event (Note 17)

See accompanying notes to the consolidated financial statements.

Approved by the Board

"Yogeshwar Sharma"

Director – Yogeshwar Sharma

"David Winter"

Director – Dr. David A. Winter

# HORIZON PETROLEUM LTD.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

Years Ended August 31, 2020 and 2019

	2020	2019
Expenses:		
Directors' fees (recovered) (Note 11)	\$ (21,000)	\$ 84,230
Management fees (Note 11)	23,830	305,777
Professional fees	167,531	245,174
Salaries and benefits	7,391	36,927
Office	57,116	41,966
Property investigation costs (Note 7)	13,642	13,244
Rent	4,993	47,584
Shareholder communication	2,620	17,143
Investor relations	1,015	-
Transfer agent and regulatory fees	5,200	17,916
Travel and related costs	-	9,567
Share-based payments (Notes 10 and 11)	(2,670)	24,429
Gain on deconsolidation of subsidiary (Note 2(c))	(790,713)	-
Acquisition cost (Note 15)	-	2,775,335
Foreign exchange gain	(31,704)	(25,509)
Total expenses	(562,749)	3,593,783
Other items:		
Interest income	-	5,951
Income (loss) and comprehensive income (loss)	\$ 562,749	\$ (3,587,832)
Basic and diluted income (loss) per common share	\$ 0.01	\$ (0.06)
Weighted average number of common shares outstanding, basic and diluted	59,857,176	57,756,299

See accompanying notes to the consolidated financial statements.

# HORIZON PETROLEUM LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended August 31, 2020 and 2019

	2020	2019
<b>Operating activities</b>		
Comprehensive income (loss) for the year	\$ 562,749	\$ (3,587,832)
Items not affecting cash:		
Share-based payments	(2,670)	24,429
Unrealized foreign exchange (gain) loss	(32,185)	(494)
Gain on deconsolidation of subsidiary	(818,231)	-
Write-down of acquisition costs	11,979	-
Acquisition cost	-	2,775,335
Changes in non-cash working capital items:		
Receivables	33,673	50,121
Prepaid expenses	16,534	(6,399)
Inventory	11,251	-
Accounts payable and accrued liabilities	43,976	(192,905)
Cash flows (used in) operating activities	(172,924)	(937,745)
<b>Financing activities</b>		
Proceeds from private placement	-	1,104,000
Share issuance costs	-	(104,046)
Cash flows from financing activities	-	999,954
<b>Investing activities</b>		
Acquisition costs	-	(11,979)
Cash acquired on acquisition of subsidiaries	-	1,679
Cash flows (used in) investing activities	-	(10,300)
Change in cash during the year	(172,924)	51,909
Cash, beginning of year	220,144	168,235
Cash, end of year	47,220	220,144
<b>Supplemental Information</b>		
Issuance of broker warrants	-	32,616

See accompanying notes to the consolidated financial statements.

# HORIZON PETROLEUM LTD.

Consolidated Statements of Changes in (Deficiency)

(Expressed in Canadian dollars)

Years ended August 31, 2020 and 2019

	Number of shares	Share capital	Warrants	Stock Option Reserve	Deficit	Total
Balance, August 31, 2018	37,777,176	\$ 17,504,088	\$ -	\$ 854,196	\$ (19,346,085)	\$(987,801)
Loss for the year		-			(3,587,832)	(3,587,832)
Shares issued on private placement	22,080,000	1,104,000			-	1,104,000
Share issue costs		(136,662)	32,616		-	(104,046)
Share-based payments				24,429	-	24,429
Balance at August 31, 2019	59,857,176	\$ 18,471,426	\$ 32,616	\$ 878,625	\$ (22,933,917)	\$(3,551,250)
Income for the year					562,749	562,749
Share-based payments				(2,670)		(2,670)
Balance at August 31, 2020	59,857,176	\$ 18,471,426	\$ 32,616	\$ 875,955	\$ (22,371,168)	\$(2,991,171)

See accompanying notes to the consolidated financial statements.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 1. Corporate information and going concern:

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

The registered and records office of the Company are located at 15th Floor, 850 – 2nd Street SW, Calgary, Alberta T2P 0R8.

The business of exploring for oil and gas reserves involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company's continued existence is dependent upon the preservation of its properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Although the Company has taken steps to verify title to the concessions in which it has an interest, in accordance with industry standards for the current stage of exploration of such concessions, these procedures do not guarantee the Company's title. Concession title may be subject to government licensing registration or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims and noncompliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations, restriction and political uncertainty. See Note 15 regarding the status of the Company's oil and gas concessions in Poland.

The Company has not generated revenues from operations. These consolidated 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 consolidated financial statements may be necessary. Material uncertainties as to the Company's ability to obtain additional financing to fund future operations 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 year ended August 31, 2020, the Company used cash from operating activities of \$(172,924) (2019 - \$(937,745) and the Company had a working capital deficiency of \$2,991,171 (2019 – \$2,608,303).

Novel Coronavirus (“COVID-19”):

The Company's operations have and will be significantly adversely affected by the effects of the widespread global outbreak of contagious disease, including the outbreak of respiratory illness caused by COVID-19.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 1. Corporate information and going concern (continued):

The Company cannot accurately predict the impact COVID-19 has had and will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic, demographic and temporal spread of the virus, the severity of the disease, the duration of the outbreak(s), and the length of travel and quarantine restrictions imposed by governments of affected countries from time to time. It is clear that the disease has impacted the price of oil and the availability of capital. However, such impact is not quantifiable as there are other operational constraints (such as pipeline capacity, weather, global consumer confidence, global geopolitical decisions) that also affect these things. Significant outbreak(s) of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

## 2. Basis of presentation and statement of compliance:

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with international Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC").

These consolidated financial statements were authorized for issue by the Board of Directors on August 23, 2021.

### (b) Basis of consolidation and presentation:

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Control exists when the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all of the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 2. Basis of presentation and statement of compliance (continued):

### (b) Basis of consolidation and presentation (continued):

The preparation of financial statements requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

### (c) Company Subsidiaries:

The Company holds 100% of the below subsidiaries:

Legal Business Name of Subsidiary	Country of Incorporation
SAS Petromanas Energy (France) SAS	France
Gallic Lux 1	Luxembourg
Gallic Lux 2	Luxembourg
Energia Karpaty Zachodnie Sp. Z.O.O.	Poland
Energia Karpaty Zachodnie spolka z ograniczona odpowiedzialnoscia Sp. K.	Poland
Kotlarka Energy spolka z ograniczona odpowiedzialnoscia	Poland
Prusice Energy spolka z ograniczona odpowiedzialnoscia	Poland

The above subsidiaries in Poland (the "Polish Subsidiaries") were acquired during 2019 (Note 15).

The Company lost control of SAS Petromanas Energy (France) SAS ("Petromanas") during 2020 when Petromanas entered a court approved liquidation process. The Company derecognized all assets and liabilities of this subsidiary in 2020 and recognized a gain on deconsolidation in the amount of \$790,713. Petromanas was inactive at the time of its deconsolidation.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except as otherwise noted below.

(a) The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the period end date exchange rates. Non-monetary items carried at historical cost are translated at the The functional currency of the Company and its subsidiaries is the Canadian dollar, which is also the presentation currency of the consolidated financial statements.

(b) Cash and equivalents:

Cash and equivalents include cash held with Canadian financial institutions. All funds are readily available to the Company.

(c) Financial instruments:

### **Financial assets**

#### **Initial recognition and measurement**

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either fair value through profit or loss ("FVPL") or fair value through other comprehensive income ("FVOCI"), and "financial assets at amortized cost", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

#### **Subsequent measurement – financial assets at amortized cost**

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of loss. The Company's cash and receivables are classified as financial assets at amortized cost.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies (continued):

(c) Financial instruments (continued):

### **Subsequent measurement – financial assets at FVPL**

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements loss. The Company does not measure any financial assets at FVPL.

### **Subsequent measurement – financial assets at FVOCI**

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

### **Derecognition**

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

### **Impairment of financial assets**

The Company's only financial assets subject to impairment are receivables, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies (continued):

(c) Financial instruments (continued):

### **Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities and acquisition cost payable, which are measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

#### **Subsequent measurement – financial liabilities at amortized cost**

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of income (loss).

#### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of income (loss).

(d) Impairment of non-financial assets:

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit ("CGU") exceeds its recoverable amount.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, of no impairment loss had been recognized.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies (continued):

### (e) Exploration and evaluation ("E&E") assets:

Pre-license or property investigation costs are recognized in the consolidated statement of income (loss) as incurred.

Exploration and evaluation costs, including the costs of acquiring leases and licenses, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. In assessing the indicators of impairment, the Company considers whether the period for which the Company has the right to explore has expired or will expire in the near future; whether substantive expenditure on further exploration is budgeted or planned; whether a decision has been made to discontinue exploration activities and whether sufficient data exists to indicate that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale. For purposes of impairment testing, exploration and evaluation assets are allocated to related CGUs. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property and equipment.

### (f) Decommissioning obligations:

Decommissioning obligations are legal obligations connected with the abandonment and reclamation of the Company's oil and natural gas assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for decommissioning obligations are adjusted to take risks and uncertainties into account and are inflated and discounted using a risk-free discount rate. Initially, the net present value of the estimated decommissioning obligations is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. Revaluations of the decommissioning obligations at each reporting period take into account changes in estimated future cash flows and the discount rate. Any change in the carrying amount of the provision due to change in the present value is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as financing costs. Actual costs incurred upon the settlement of the decommissioning obligations are charged against the decommissioning obligations.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies (continued):

### (f) Decommissioning obligations (continued)

Any difference between the estimated decommissioning obligation and the actual retirement costs incurred is recorded as a gain or loss. Management reviews the decommissioning obligation estimate and changes, if any, are applied prospectively. Revisions made to the decommissioning obligation estimate are recorded as an increase or decrease to the decommissioning obligation with a corresponding change made to the carrying amount of the related asset. The asset is depreciated over the remaining useful life of the underlying asset.

The carrying amount of both the liability and the capitalized asset, net of accumulated depreciation, are derecognized if the asset is subsequently disposed.

### (g) 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 options and share warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (h) Share-based payments:

Where non-cash equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of income (loss) over the vesting period. Vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

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 loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of income (loss), unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies (continued):

### (h) Share-based payments (continued):

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 valuation model.

All non-cash equity-settled share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for 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.

### (i) Income taxes:

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted, or substantively enacted by the reporting date.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax 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 if there is a legal enforceable right to offset the tax liabilities and assets, and they related to income taxes levied by the same tax authority.

### (j) Income (loss) per share:

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted income (loss) per share is computed by using the weighted average number of shares outstanding plus additional shares for the assumed exercise of stock options and warrants, if dilutive.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 3. Significant accounting policies (continued):

### (j) Income (loss) per share (continued):

The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Diluted loss per share for the years presented excludes all outstanding stock options and warrants as they are anti-dilutive.

### (k) Leases:

A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## 4. New accounting standards, amendments and interpretations:

### *IFRS 9 – Financial Instruments*

Effective September 1, 2018, the Company adopted IFRS 9, Financial Instruments which resulted in changes to the accounting policy as described below. In accordance with the transitional provisions of the standard, the Company adopted this standard retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at September 1, 2018. There were no effects on opening balances at September 1, 2018 with respect to the adoption of this policy.

IFRS 9 replaces International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) FVPL or FVOCI; establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 4. New accounting standards, amendments and interpretations (continued):

### *IFRS 9 – Financial Instruments (continued)*

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
<b>Financial assets</b>		
Cash	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Acquisition cost payable	Other financial liabilities	Amortized cost

### *IFRS 16 – Leases*

In 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 was effective for annual periods beginning on or after January 1, 2019. The adoption of this IFRS had no material effect on the consolidated financial statements.

### *Recent accounting pronouncements*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after September 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. Management is currently evaluating the impact of these pronouncements on the Company's consolidated financial statements.

*IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")* were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

*IAS 1 – Presentation of Financial Statements ("IAS 1")* was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 4. New accounting standards, amendments and interpretations (continued):

*IFRS 3 – Business Combinations (“IFRS 3”)* was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

*IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”)* were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

*IAS 16 – Property, Plant and Equipment (“IAS 16”)* was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

## 5. Critical accounting estimates and judgments:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are discussed below:

### (a) Share-based payment transactions:

The Company measures the cost of equity-settled transactions 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

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 5. Critical accounting estimates and judgments (continued):

### (a) Share-based payment transactions (continued):

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 10.

### (b) Decommissioning liabilities:

Decommissioning liabilities are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. The cost estimates are updated annually during the life of a project to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations) and are subject to review at regular intervals. See Note 8.

### (c) Income, value added, withholding and other taxes:

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities.

All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded. Such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

### (c) Business combinations vs. asset acquisitions

Determination of whether a set of assets acquired and liabilities assumed constitute a business requires the Company to make certain judgments, taking into account all facts and circumstances. In making this determination, the Company considers items including, but not limited to: whether there are inputs and processes attributable to the set of assets and liabilities, the extent of the infrastructure in place, the work required to bring the acquired assets to production and whether the project has resources or reserves. Such judgments are inherently uncertain and could have a significant effect on the method of accounting for the acquisition and the disclosures required. See Note 15.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 5. Critical accounting estimates and judgments (continued):

### (c) Impairment of exploration and evaluation properties

While assessing whether any indications of impairment exist for exploration and evaluation properties, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation properties and equipment. Internal sources of information include the manner in which exploration and evaluation properties are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include but are not limited to estimates of the discounted future pre-tax cash flows expected to be derived from the Company's exploration and evaluation properties, costs to sell the properties and the appropriate discount rate. Reductions in oil and gas price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation properties and equipment.

### (d) Commitments and contingencies

See Notes 15 and 16.

## 6. Receivables:

The Company's receivables are as follows:

	2020	2019
GST & VAT Tax Receivable	\$ 3,057	\$ 25,033
Trade Receivables (Poland)	-	11,697
	<u>\$ 3,057</u>	<u>\$ 36,730</u>

## 7. Property investigation costs:

All property investigation costs are related to the investigation of oil and natural gas opportunities within Europe. These costs were expensed during the year ended August 31, 2020.

## 8. Decommissioning obligations:

	2020	2019
Balance, beginning of period	954,926	\$ 959,989
Foreign exchange	-	(5,063)
Derecognition upon deconsolidation	(954,926)	-
Balance, end of period	<u>\$ -</u>	<u>\$ 954,926</u>

The decommissioning obligation related to a property held by Petromanas. As Petromanas was deconsolidated during 2020, this liability was derecognized.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 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.

On September 26, 2018, the Company closed a non-brokered private placement for aggregate proceeds of \$1,104,000. Upon closing, the Company issued 22,080,000 common shares at a price of \$0.05 per share. In connection with the private placement, the Company paid a finder's fee of \$54,360 and issued 1,087,200 broker warrants to acquire shares at \$0.05 per share until September 26, 2021 valued at \$32,616 using the BlackScholes option pricing model.

The following assumptions were used in the Black-Scholes option pricing model calculations: expected dividend yield rate of 0%, expected volatility of 97% based on historical volatility, risk free interest rate of 2.2%, share price of \$0.05 and an expected life of 3 years.

During the year ended August 31, 2020, the Company did not issue any additional shares.

## 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.

The following table reflects the continuity of stock options for the years ended August 31, 2020 and 2019:

	Number of options	Weighted average exercise price
Balance, August 31, 2018	2,828,664	\$ 0.26
Forfeited	(133,333)	(0.07)
Balance, August 31, 2019	2,695,331	0.20
Expired	(1,102,000)	(0.19)
Forfeited	(108,333)	(0.09)
Balance, August 31, 2020	1,484,998	\$ 0.22
Number of options currently exercisable	1,484,998	\$ 0.22

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 10. Reserves (continued):

(a) Stock options (continued):

The weighted average remaining contractual life for the share options outstanding as at August 31, 2020 is 2.23 years (August 31, 2019 – 2.80 years).

As at August 31, 2020, the Company had outstanding and exercisable stock options enabling the holders to acquire common shares as follows:

Number of options	Exercise price	Expiry date
43,333	\$ 0.90	August 4, 2023
341,665	0.60	December 4, 2022
991,667	0.07	November 5, 2022
108,333	0.09	November 8, 2022
1,484,998	\$ 0.22	

For the years ended August 31, 2020 and 2019, the share-based payments expense recognized was \$(2,670) for 2020 and \$24,429 for 2019.

(b) Warrants:

The following table reflects the continuity of warrants for the years ended August 31, 2020 and 2019:

	Number of Warrants	Weighted average exercise price
Balance, August 31, 2018	-	\$ -
Broker warrants issued	1,087,200	0.05
Balance, August 31, 2020 and 2019	1,087,200	\$0.05

The warrants outstanding expire on September 26, 2021.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 11. Related party transactions:

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

	Twelve months August 31, 2020	Twelve months August 31, 2019
Executive compensation (1)	\$ 18,484	\$ 300,500
Non-executive directors fees (2)	(21,000)	84,000
Share-based payments	(2,670)	24,429
	<u>\$ (5,186)</u>	<u>\$ 408,929</u>

- (1) Executive compensation includes all management fees accrued to the Company's current CEO, VP Business Development and former corporate secretary of the company.
- (2) Includes \$Nil (2019 - \$84,000) in directors' fees accrued to three non-executive directors of the Company. During 2020, certain fees were waived by the directors which resulted in a recovery of \$21,000.

During the year ended August 31, 2019, directors and officers subscribed for a total of 3,260,000 common shares for aggregate gross proceeds of \$163,000.

As at August 31, 2020, \$16,417 (2019 - \$65,257) was payable to directors and officers of the Company. These amounts were unsecured, non-interest bearing with no fixed terms of repayment.

## 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 August 31, 2020 and August 31, 2019 due to their short-term nature.

The Company does not have any financial instruments carried at fair value as at August 31, 2020 and 2019. The carrying values of cash, receivables, accounts payable and accrued liabilities and acquisition cost payable approximate their fair values because of their short terms to maturity.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 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 receivables. The Company limits the exposure to credit risk by only investing its cash with high credit quality financial institutions in business and saving accounts. The carrying amount of cash and receivables 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 has no interest bearing financial instruments which bear interest at fixed or variable rates. The Company is not exposed to material interest rate risk.

### (d) 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 August 31, 2020, the Company had cash of \$47,220 (2019 - \$220,144) to settle current liabilities of \$3,050,481 (2019 - \$2,901,995). The Company will require further financings to cover its expected cash requirements for the next year. (See note 1 to these consolidated financial statements.)

### (e) Foreign currency:

The Company is exposed to foreign currency risk as some of its cash and accounts payable and accrued liabilities are held in United States dollars ("USD"), Euros and Polish Zloty. A portion of the Company's acquisition cost payable is denominated in USD and Euros. 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 foreign denominated financial instruments is as follows:

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 12. Financial instruments and risk management (continued):

(e) Foreign currency (continued):

	2020		2019	
	Amount in Foreign Currency \$	Amount in Canadian Dollars \$	Amount in Foreign Currency \$	Amount in Canadian Dollars \$
<i>United States dollars:</i>				
Cash	-	-	9,709	12,933
Accounts payable and accrued liabilities	8,319	10,841	19,824	26,406
Acquisition cost payable	1,210,000	1,576,786	1,210,000	1,611,765
<i>Euro</i>				
Cash	-	-	9,370	13,723
Accounts payable and accrued liabilities	105,423	164,213	-	-
Acquisition cost payable	30,000	46,730	30,000	43,936
<i>Polish Zloty</i>				
Cash	115,845	41,050	5,021	1,679
Receivables	-	-	34,980	11,697
Accounts payable and accrued liabilities	105,657	37,440	31,353	10,485

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, receivables, accounts payable and accrued liabilities and acquisition cost payable. Financial instruments are denominated in US dollars, Euros, and Polish Zloty. As at August 31, 2020, the net loss and comprehensive loss would have been \$86,003 (2019 - \$81,579) higher/lower, had the Canadian dollar strengthened/weakened by 5% as a result of foreign exchange gains/losses on translation of US dollar, Euros, and Polish Zloty denominated financial instruments.

## 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.

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 13. Capital management (continued):

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 is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of August 31, 2020, the Company is not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

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. There are no significant changes in the Company's approach to capital management during the years ended August 31, 2020 and 2019.

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. Income tax:

The provision for income taxes reported differs from the amount computed by applying cumulative Canadian federal and provincial income tax rates to the loss before the tax provision due to the following:

	2020	2019
Income (loss) for the year before taxes	\$ 562,749	\$(3,587,832)
Statutory tax rate	26.5%	26.5%
Expected income tax expense (recovery)	\$ 149,000	\$(951,000)
Change in unrecognized deferred tax assets	53,000	177,000
Non-deductible items	(210,000)	742,000
Foreign operations with difference in tax rates	8,000	32,000
	\$ -	\$ -

Significant components of deductible temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statement of financial position are:

	2020	2019
Share issuance costs	\$ 102,000	\$ 156,000
Non-capital losses	30,662,000	43,864,000
Exploration and evaluation assets	161,000	161,000
Decommissioning obligation	-	955,000
	\$30,925,000	\$45,136,000

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 14. Income tax (continued):

At August 31, 2020, non-capital losses of \$3,976,000 incurred in Canada will expire starting in 2037. Operating losses in Luxembourg were \$26,686,000 which will expire starting in 2034. Operating losses in France were \$13,509,000 as at August 31, 2019 and were excluded from the 2020 total upon deconsolidation of Petromanas. The potential future benefits of these losses have not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which the Company can use the benefits.

## 15. Acquisition of subsidiaries in Poland:

During June 2017, the Company entered into a memorandum of understanding (“MOU”) regarding the acquisition of a 100% interest the Poland Subsidiaries which hold 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 Poland Subsidiaries (the “Acquisition”).

Under the terms of the MOU, the Company advanced USD\$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. USD\$100,000 (\$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 USD\$100,000 (\$135,340) was advanced as a loan which bore interest at the rate of 6% per annum.

The definitive agreements were subsequently amended and pursuant to the amended terms, the Company agreed to pay the following, in exchange for a 100% interest in the subsidiaries holding the Cieszyn and Bielsko-Biala concessions (the “Primary Concessions”) in Poland:

- 1) Cash payment of USD\$1,080,000 (\$1,429,515);
- 2) \$1,000,000 in common shares of the Company. The common shares are to be issued at the lesser of: a) Cdn\$0.20 per share, b) the lowest price per share at which the Company completes an equity placement for a minimum of \$1,000,000, up to but not including the date of closing of the acquisition, and c) the volume weighted average price of the Company’s common shares for the period of 10 trading days immediately prior to the closing date. There are various warranties the Company provided to SLE which must be maintained by the Company, including a requirement for the Company’s shares to remaining trading on the TSXV. If Horizon is unable to meet these requirements, it will be required to pay to SLE the equivalent value of the common shares in cash. The Company’s shares are currently cease-traded; and
- 3) A 6% net profits interest.
- 4) The consideration for the acquisition of the subsidiaries holding the other 3 concessions, being the Kotlarka, Prusice, and Buchowice concessions (“Secondary Concessions”) is €10,000 (\$14,845) per concession, the payment of administrative costs totaling USD\$130,000 (\$172,071)

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 15. Acquisition of subsidiaries in Poland (continued):

and the issuance of a 6% net profits interest. The Company subsequently withdrew the applications for these concessions in January, 2020.

5) The outstanding loan owing to the Company from SLE of USD\$100,000 (\$132,363 as at the closing date) was assigned to Energia Karpaty Zachodnie SP. Z.O.O SP.K., one of the Polish Subsidiaries. In addition, the Company accepted a transfer from SLE of certain intercompany loans. These loans have been eliminated in these consolidated financial statements on consolidation.

On August 12, 2019, the Acquisition closed. The consideration owing is payable to SLE upon completion of the Transformation Process as defined below. As this has not yet occurred, the consideration has been recorded as acquisition cost payable in the consolidated statements of financial position as at August 31, 2019 and 2020.

A transformation of the concessions to the new Polish concession laws (“Transformation Process”) is required by the Polish Government, and has not yet been met. The Transformation Process has commenced for the Cieszyn and Bielsko-Biala concessions but is not complete. At this time it is not possible to determine if, or when, the Transformation Process will be successfully completed.

The Acquisition has been accounted for as an acquisition of assets and liabilities of the Polish Subsidiaries as the Polish Subsidiaries do not meet the definition of a business under IFRS 3. The acquisition of the net assets of the Polish Subsidiaries were recorded at the estimated fair market value of consideration payable as detailed below. The excess of the consideration payable over the net assets of the Polish Subsidiaries at the closing date has been expensed as an acquisition cost as the Polish Subsidiaries did not hold any concessions that have completed the Transformation Process and as there is no guarantee that the transformations in process will be completed.

Consideration payable:

Acquisition cost payable at closing	\$2,796,694
-------------------------------------	-------------

Net assets acquired:

Cash	\$ 1,679
Receivables	11,697
Inventory	14,126
Accounts payable and accrued liabilities	(6,143)
Acquisition cost (expense)	2,775,335
<b>Total</b>	<b>\$ 2,796,694</b>

# HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended August 31, 2020 and 2019

## 16. Commitments and contingencies:

- (a) The Company's oil and gas activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.
- (b) The Company has discontinued oil and gas operations in various jurisdictions and has sold, dispersed of, or written down the carrying value of the related assets to nominal amounts. An estimate of the total liability, if any, for which the Company might become obligated as a result of its role as operator, guarantor, or indemnifier is not determinable, nor expected to be material, and no amount has been provided for in these consolidated financial statements.
- (c) Upon completion of the Transformation Process, the Poland concessions may be subject to annual licence fees and a mining usufruct fee. The requirement to pay such fees is contingent upon the completion of the Transformation Process, and accordingly no amounts have been recorded for these items in these consolidated financial statements.
- (d) During 2020, the Company received a tax assessment for Petromanas in the amount of €2,085,686 (\$3,248,039) relating to taxes assessed on a 2017 gain on intercompany debt forgiveness. The Company disagrees with the assessment and would have disputed the amount. However, during 2020, the Company lost control of Petromanas as it entered a court approved liquidation process (see Note 2(c)). Accordingly, no amounts have been accrued in these consolidated financial statements relating to this contingent liability.
- (e) The Company may be subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are estimable. Although the outcome of such matters cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, operations or liquidity. The outcome of these litigations cannot be reasonably determined, as a result, no amounts have been accrued as at August 31, 2020 and 2019.

## 17. Subsequent event:

On December 21, 2020, the Company received a loan in the amount of \$75,000. The loan bears interest at 10% and matures on December 21, 2021. The loan is secured against the assets of the Company.