



HORIZON PETROLEUM LTD.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended May 31, 2023

NOTIFICATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

In accordance with National Instrument 51-101 released by the Canadian Security Administrators, the Company discloses that its auditors have not reviewed the unaudited interim condensed consolidated financial statements as at and for the nine months ended May 31, 2023

# Horizon Petroleum Ltd.

Interim Condensed Consolidated Statements of Financial Position

Unaudited (Expressed in Canadian Dollars)

<b>As at</b>	<b>May 31, 2023</b>	<b>August 31, 2022</b>
<b>Assets</b>		
Current Assets		
Cash	\$ 419,828	\$ 20,174
Prepaid expenses	25,980	13,871
Receivables	30,585	19,858
<b>Total Assets</b>	<b>\$ 476,393</b>	<b>\$ 53,903</b>
<b>Liabilities and Shareholders' Deficiency</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 218,316	\$ 721,909
Notes payable (Note 4)	-	110,000
Acquisition cost payable (Note 10)	2,672,536	2,625,914
<b>Total Liabilities</b>	<b>2,890,852</b>	<b>3,457,823</b>
<b>Shareholders' deficiency</b>		
Share capital (Note 5)	19,798,645	18,471,426
Stock option reserve (Note 6)	938,715	875,955
Warrants (Note 6)	315,591	-
Deficit	(23,467,410)	(22,751,301)
<b>Total Shareholders' Deficiency</b>	<b>(2,414,459)</b>	<b>(3,403,920)</b>
<b>Total Liabilities and Shareholders' Deficiency</b>	<b>\$ 476,393</b>	<b>\$ 53,903</b>

Going concern (Note 1)

Commitments and contingencies (Notes 4, 10 and 11)

See accompanying notes to these unaudited interim condensed consolidated financial statements

Approved by the Board

"Charle Gamba"

Director

"David Winter"

Director

# Horizon Petroleum Ltd.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Unaudited (Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2023	2022	2023	2022
Expenses:				
Professional fees	\$ 18,684	\$ 41,004	\$ 232,060	\$ 132,840
Management fees (Note 7)	20,153	18,164	193,757	49,189
Salaries	97,610	-	97,610	(7,131)
Stock based compensation	62,760	-	62,760	-
Office	47,408	15,057	43,218	18,377
Shareholder communication	18,819	-	20,283	-
Travel and entertainment	8,920	-	19,620	-
Bank charges	555	31	1,714	1,332
Transfer agent and regulatory fees	28,282	(19,637)	33,246	4,259
Foreign exchange loss (gain)	(18,948)	88,766	77,382	84,517
Gain on settlement of debt	-	-	(67,784)	-
<b>Total expenses</b>	<b>284,243</b>	<b>143,385</b>	<b>713,866</b>	<b>283,383</b>
Financing				
Interest	-	18,864	2,243	28,119
<b>Loss and comprehensive loss</b>	<b>\$ 284,243</b>	<b>162,249</b>	<b>716,109</b>	<b>\$ 311,502</b>
Basic and diluted loss per common share	\$ (0.00)	(0.00)	(0.00)	\$ (0.00)
Weighted average number of common shares outstanding, basic and diluted	108,200,343	59,857,176	108,200,343	59,857,176

See accompanying notes to these unaudited interim condensed consolidated financial statements

# Horizon Petroleum Ltd.

Interim Condensed Consolidated Statements of Cash Flows  
Unaudited (Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2023	2022	2023	2022
<b>Operating Activities</b>				
Loss for the period	\$ (284,243)	\$ (162,249)	\$ (716,109)	\$ (311,502)
Gain on settlement of debt	-	-	(67,784)	-
Stock based compensation	62,760	-	62,760	-
Unrealised foreign exchange loss (gain)	(15,350)	99,158	114,407	94,630
Changes in non-cash working capital				
Receivables	(10,940)	(15,347)	(10,727)	(3,766)
Prepaid expenses	(21,099)	-	(12,109)	(7,988)
Accounts payable and accrued liabilities	(88,050)	83,288	(503,593)	128,251
<b>Cash flow (used in) operating activities</b>	<b>(356,922)</b>	<b>4,850</b>	<b>(1,133,155)</b>	<b>(100,375)</b>
<b>Financing Activities</b>				
Proceeds on share issue	79,375	-	1,434,743	-
Share issue costs	(7,521)	-	(107,524)	-
Proceeds on warrants issued	19,238	-	315,591	-
Proceeds on note payable	-	-	-	58,809
Repayment of note payable	-	(12,003)	(110,000)	-
<b>Cash flow from financing activities</b>	<b>91,092</b>	<b>(12,003)</b>	<b>1,532,810</b>	<b>58,809</b>
Change in cash during the period	(265,830)	(7,153)	399,654	(41,566)
Cash beginning of period	685,658	16,391	20,174	50,804
<b>Cash end of period</b>	<b>\$ 419,828</b>	<b>\$ 9,238</b>	<b>\$ 419,828</b>	<b>\$ 9,238</b>

See accompanying notes to these unaudited interim condensed consolidated financial statements

# Horizon Petroleum Ltd.

Interim Condensed Consolidated Statements of Shareholders' Deficiency

Unaudited (Expressed in Canadian Dollars)

For the nine months ended May 31, 2023 and 2022

	Number of Shares	Share capital	Warrants	Stock Option Reserve	Deficit	Total
Balance at August 31, 2021	59,857,176	\$ 18,471,426	\$ 32,616	\$ 875,955	\$ (22,450,372)	\$ (3,070,375)
Warrants expired	-	-	(32,616)	-	-	(32,616)
Net loss for the period	-	-	-	-	(284,346)	(284,346)
<b>Balance at May 31, 2022</b>	<b>59,857,176</b>	<b>18,471,426</b>	<b>-</b>	<b>875,955</b>	<b>(22,734,718)</b>	<b>(3,387,336)</b>
Balance August 31, 2022	59,857,176	18,471,426	-	875,955	(22,751,301)	(3,403,920)
Shares issued	59,073,500	1,327,219	-	-	-	1,327,219
Warrants issued	-	-	315,591	-	-	315,591
Stock options	-	-	-	62,760	-	62,760
Net loss for the period	-	-	-	-	(716,109)	(716,109)
<b>Balance at May 31, 2023</b>	<b>118,930,676</b>	<b>\$ 19,798,645</b>	<b>\$ 315,591</b>	<b>\$ 938,715</b>	<b>\$ (23,467,410)</b>	<b>\$ (2,414,459)</b>

See accompanying notes to these unaudited interim condensed consolidated financial statements

# HORIZON PETROLEUM LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
As at and for the nine months ended May 31, 2023, and 2022  
Unaudited (Expressed in Canadian dollars)

## 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 1000, 250 – 2<sup>nd</sup> Street S.W., Calgary, Alberta T2P-0C1.

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 titles 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 Notes 10 regarding the status of the Company's oil and gas concessions in Poland.

The Company has not generated revenues from operations. These interim condensed 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 revenue except for interest income. For the nine-month period ended May 31, 2023, the Company used cash from operating activities of \$1,133,155 (nine-month period ended May 31, 2022 \$100,375). As at May 31, 2023, the Company had a working capital deficiency of \$2,414,459 (August 31, 2022 \$3,403,920).

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

(a) Statement of compliance:

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

# HORIZON PETROLEUM LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
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## 2. Basis of presentation and statement of compliance (continued):

The policies applied in these unaudited interim condensed financial statements are based on IFRS issued and outstanding as of July 28, 2023, the date the Board of Directors approved the statements. The same accounting policies, methods of computation, and critical accounting estimates and judgments are followed in these unaudited interim condensed financial statements as compared with the most recent annual financial statements as at and for the year ended August 31, 2022. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended August 31, 2022. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending August 31, 2023 could result in restatement of these unaudited interim condensed financial statements.

### (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.

### (c) Company Subsidiaries:

The Company holds 100% of the below subsidiaries:

Legal Business Name of Subsidiary	Country of Incorporation
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

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

### (c) Company Subsidiaries (cont)

The above subsidiaries in Poland (the “Polish Subsidiaries”) were acquired during 2019 (Note 10).

The Company had a 100% interest in SAS Petromanas Energy (France) SAS (“Petromanas”) but lost control 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.

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

### *Recent accounting pronouncements*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing September 1, 2022. Many are not applicable or do not have a significant impact on 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”)* 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.

*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.

During the period ended May 31, 2023 the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IAS 37. These new standards and changes did not have any material impact on the Company’s consolidated financial statements.

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## 4. Note payable:

Between December 21, 2020, to June 2022, the Company received loans from a third party, bearing interest at 10% that matured on December 21, 2021. In July 2022, the company entered into an agreement with the third party for a final settlement payment of \$160,000 to be paid in two installments consisting of \$50,000 on or before August 08, 2022 plus \$110,000 on or before November 14, 2022. The payments were made on the dates required.

On August 04, 2022, the Company received loans from two Directors of the Company in an amount \$53,000 due on demand and bearing interest at 10%. The balance of these loans was included in Account payable and accrued liabilities. Each outstanding loan balance was fully repaid in January 2023.

## 5. Share capital:

Authorized:

- Unlimited common shares without par value and an unlimited number of preferred shares without par value.

Issued and outstanding, basic and fully diluted:

- 118,930,676

Activity for the nine-month ended May 31, 2023:

On September 30, and October 6, 2022 the Company issued 50,000,000 units at \$0.02 per unit for gross proceeds of \$1,000,000. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.05 for a period of 12 months from the date of issuance.

The common share portion of the unit was valued at \$840,000 and the share purchase warrant portion of the unit was valued at \$160,000. The fair value of the common shares and warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected life - one year; volatility – 84%; dividend rate – nil; risk free interest rate – 3.6%. 7,500,000 of these units are subscribed for by the officers of the Company.

In conjunction with the issuance of the shares, the Company incurred share issuance costs of \$73,507 and warrant issue costs of \$14,001 which included cash costs comprised of legal and filing fees of \$56,779 and finders fees payments of \$15,300, as well as a non-cash cost of \$15,429 relating to the valuation of the issuance of 2,220,000 finders warrants. Each finder's warrant enabled the holder to acquire one common share for \$0.02 per share and an additional common share for \$0.05 per share. The finders warrants expire on September 30, 2023. The fair value of the finders warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected life - one year; volatility – 84%; dividend rate – nil; risk free interest rate – 3.6%.

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## 5. Share capital (continued):

In February 2023, the Company closed the first tranche of a private placement announced on January 12, 2023. The Company issued 7,850,000 units at \$0.08 per unit for gross proceeds of \$628,000. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.16 for a period of 12 months from the date of issuance.

The common share portion of the unit was valued at \$515,366 and the share purchase warrant portion of the unit was valued at \$120,000. 1,862,500 of these units were subscribed for by Directors and Officers of the Company.

In conjunction with the issuance of the shares, the Company incurred share and warrant issuance costs of \$24,309 which included cash costs comprised of legal and filing fees of \$11,570 and a non-cash cost of \$12,739 relating to the valuation of the issuance of 344,750 finders warrants. Each finder's warrant enabled the holder to acquire one common share for \$0.08 per share and an additional common share for \$0.08 per share. The finders warrants expire on February 02, 2024.

The fair value of the warrants and the finders warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected life - one year; volatility – 120%; dividend rate – nil; risk free interest rate – 3.7%.

In March 2023, the Company closed the second tranche of the private placement announced on January 12, 2023. The Company issued 1,143,500 units at \$0.08 per unit for gross proceeds of \$91,480. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.16 for a period of 12 months from the date of issuance. The common share portion of the unit was valued at \$62,295 and the share purchase warrant portion of the unit was valued at \$17,705. 62,500 of these units were subscribed for by Directors and Officers of the Company.

In conjunction with the issuance of the shares, the Company paid a finders fee of \$388 cash and finders warrants to acquire common shares at \$0.08 per share. The Company also paid a finder fee of 80,000 units comprised of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.16 per share. The finders warrants expire on March 20, 2024.

The fair value of the warrants and the finders warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected life - one year; volatility – 120%; dividend rate – nil; risk free interest rate – 4.22%.

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Notes to the Interim Condensed Consolidated Financial Statements  
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## 6. 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 period ended May 31, 2023:

	Number of Options	Weighted average exercise price
Balance August 31, 2022	1,484,998	\$ 0.24
Cancelled	(991,667)	\$ 0.07
Cancelled	(108,333)	\$ 0.09
Cancelled	(43,333)	\$ 0.90
Cancelled	(341,665)	\$ 0.60
Balance February 28, 2023	-	\$ -
Issued	9,500,000	\$ 0.05
Balance May 31, 2023	9,500,000	\$ 0.05

The weighted average contractual life for the share options outstanding as at May 31, 2023 is 4.99 years (August 31, 2022 – 0.22 years).

For the period ended May 31, 2023, the share-based payments expense recognized was \$\$62,760 (2022 – \$Nil).

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Notes to the Interim Condensed Consolidated Financial Statements  
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## 6. Reserves (continued):

### b. Warrants:

The following table reflects the continuity of warrants for the period ended May 31, 2023:

	Number of Warrants	Weighted average exercise price
Balance August 31, 2022	-	\$ -
Issued	50,000,000	\$ 0.05
Issued	2,220,000	\$ 0.02
Issued	7,850,000	\$ 0.16
Issued	341,250	\$ 0.08
Balance February 28, 2023	60,411,250	\$ 0.06
Issued	1,143,500	0.16
Issued	8,100	0.08
Issued	80,000	0.16
Balance May 31, 2023	61,642,850	\$ 0.07

As at May 31, 2023, the Company had outstanding warrants enabling the holder to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
24,000,000	\$ 0.05	September 30, 2023
26,000,000	\$ 0.05	October 6, 2023
1,020,000	\$ 0.05	September 30, 2023 (1)
1,200,000	\$ 0.02	October 6, 2023 (1)
7,850,000	\$ 0.16	February 2, 2024
341,250	\$ 0.08	February 2, 2024 (1)
1,143,500	\$ 0.16	March 20, 2024
8,100	\$ 0.08	March 20, 2024 (1)
80,000	\$ 0.16	March 20, 2023 (1)
61,642,850	\$ 0.07	

(1) finder warrants exercisable into units. Refer to Note 5.

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## 7. 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, 2023,	Nine Months May 31, 2022
Executive Compensation (a)	\$ 228,000	\$ -
Non-Executive Directors Fees	\$ -	\$ -
Share-based payments	\$ -	\$ -

- a. Executive compensation includes all management fees accrued to the Company's current President, CEO, and CFO.

See Note 5 for details of related party share subscriptions.

## 8. 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).

The Company does not have any financial instruments carried at fair value as of February 28, 2023.

The carrying values of cash, receivables, accounts payable and accrued liabilities, notes payable and acquisition cost payable approximate their fair values because of their short terms to maturity.

- (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:

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

### (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 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 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 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 of May 31, 2023, the Company had cash of \$419,828 (August 2022 - \$20,174) to settle current liabilities of \$2,890,536 (August 2022 - \$3,457,823).

### (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.

## 9. 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.

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## 9. 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 from the NEX board of 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.

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 were no significant changes in the Company's approach to capital management during the period ended May 31, 2023.

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.

## 10. Acquisition of subsidiaries in Poland:

During June 2017, the Company entered into a memorandum of understanding ("MOU") regarding the acquisition of a 100% interest in 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:

- a) Cash payment of USD\$1,080,000 (\$1,429,515);

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

b) \$1,000,000 in common shares of the Company. The common shares are to be issued at the lesser of:  
a) \$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 remain 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, and

c) a 6% net profits interest.

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

e) 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 February 28, 2023.

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.

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## 11. 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 license 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.

During 2021 the Company was advised that the liquidator for Petromanas commenced action against the Company's subsidiary Gallic Lux 2 in order to recover the amount owing pursuant to the tax assessment. The Company believes the claims are without merit. As the ultimate resolution of this dispute cannot be predicted at this time, no liability has been accrued related to it as at February 28, 2023.

- (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.