Sahara Energy Ltd.

Financial Statements

For the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Sahara Energy Ltd.:

Opinion

We have audited the financial statements of Sahara Energy Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and 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.

Other Information

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

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits 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 on this other information, 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 to 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 risk 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 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 financial statements, including the disclosures, and whether the 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 on the audit resulting in this independent auditor's report is Brad Frampton.

MNP LLP

Calgary, Alberta
April 29, 2020

Chartered Professional Accountants

Sahara Energy Ltd.
Statements of Financial Position
As at December 31
(in Canadian dollars)

As at		December 31 2019		December 31 2018
Assets				
Current assets				
Cash	$	635,434	$	777,027
Term deposits		8,483,659		8,724,951
Goods and Services Tax receivable		7,786		10,497
Inventory		5,050		31,720
Prepaid expenses and deposits		688,085		699,167
		9,820,014		10,243,362
Property and equipment (Note 5)		3,541,483		3,458,966
Total Assets	$	13,361,497	$	13,702,328
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	488,001	$	455,192
Decommissioning obligation (Note 6)		526,601		449,890
Total Liabilities		1,014,602		905,082
Shareholders' Equity				
Share capital (Note 7)		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated deficit		(9,362,308)		(8,911,957)
Total Shareholders' Equity		12,346,895		12,797,246
Total Liabilities and Shareholders' Equity	$	13,361,497	$	13,702,328

Subsequent event (Note 13)

Approved on behalf of the Board:

(Signed) "*Panwen Gao*", Director

(Signed) "*Gary Chang*", Director

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Loss and Comprehensive Loss
For the years ended December 31
(in Canadian dollars)

		2019		2018
Revenue				
Oil sales (Note 8)	$	154,313	$	162,970
Royalties		(1,242)		(4,637)
		153,071		158,333
Expenses				
Production and operating		177,924		176,304
General and administrative		488,394		653,620
Depletion and depreciation (Note 5)		47,163		54,314
Accretion (Note 6)		9,184		9,410
Bad debt expense (Note 11(b))		-		39,630
		722,665		933,278
Loss from operating activities		(569,594)		(774,945)
Interest income		119,243		105,553
Net loss and comprehensive loss	$	(450,351)	$	(669,392)
Net loss per share - basic	$	(0.00)	$	(0.00)
Weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Changes in Equity
For the years ended December 31
(in Canadian dollars)

		2019		2018
Share capital				
289,684,072 common shares issued and outstanding				
Balance, beginning and end of year (Note 7)	$	20,465,084	$	20,465,084
Contributed surplus				
Balance, beginning and end of year		1,244,119		1,244,119
Accumulated deficit				
Balance, beginning of year		(8,911,957)		(8,242,565)
Net loss and comprehensive loss		(450,351)		(669,392)
Balance, end of year		(9,362,308)		(8,911,957)
Total Shareholders' Equity	$	12,346,895	$	12,797,246

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Cash Flows
For the years ended December 31
(in Canadian dollars)

		2019		2018
Operating activities				
Net loss	$	(450,351)	$	(669,392)
Add back (deduct) non-cash items:				
Depletion and depreciation (Note 5)		47,163		54,314
Accretion (Note 6)		9,184		9,410
Abandonment expenditures (Note 6)		(61,687)		(49,000)
Change in non-cash working capital				
Goods and Services Tax receivable		2,711		74,163
Inventory		26,670		(31,720)
Prepaid expenses and deposits		11,082		(21,829)
Trade and other payables		32,809		(13,455)
Cash flows used in operating activities		(382,419)		(647,509)
Investing activities				
Term deposit proceeds		241,292		613,198
Development and production asset expenditures (Note 5)		(466)		(746)
Cash flows provided by investing activities		240,826		612,452
Change in cash		(141,593)		(35,057)
Cash, beginning of year		777,027		812,084
Cash, end of year	$	635,434	$	777,027

See the accompanying notes to these financial statements.

1. Nature of operations

Sahara Energy Ltd. (the "Company") was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"). The Company is a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada. The Company's registered address is 400, 444 – 7th Avenue SW, Calgary, Alberta.

As at December 31, 2019, JF Investment (Hong Kong) Co., Limited ("JF Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee in effect at January 1, 2019.

These financial statements were authorized for issue by the Board of Directors on April 29, 2020.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value.

The methods used to measure fair values are discussed in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of judgments and estimates

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical judgments in applying accounting policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Cash-generating units

The Company's assets are aggregated into a single cash-generating unit ("CGU") for the purpose of calculating impairment. CGUs are based on an assessment of a unit's ability to generate independent cash inflows. The determination of the Company's CGU was based on management's judgment in regards to shared infrastructure, geographical proximity, exposure to market risk and materiality.

Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement. In establishing joint control, the Company considers whether unanimous consent is required to direct the activities that significantly affect the returns of the arrangement, such as the capital and operating activities of the arrangement.

Once joint control has been established, judgment is also required to classify as a joint arrangement. The type of joint arrangement is determined through analysis of the rights and obligations arising from the arrangement by considering its structure, legal form, and terms agreed upon by the parties sharing control. An arrangement where the controlling parties have rights to the assets and revenues and obligations for the liabilities and expenses is classified as a joint operation.

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

Provisions

Judgments are required to assess the existence of obligations requiring a probable outflow of funds to settle the obligation and the requirement to recognize a related provision.

Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Contingencies

Judgments are made by management to determine the existence of contingencies and the outcome of future events.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these financial statements.

Recoverability of asset carrying values

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

- Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.
- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable oil and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

Decommissioning obligation

The amount recorded for the decommissioning obligation and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management must make estimates of amounts related to the outcome of future events.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

The Company classifies its financial instruments in the following measurement categories:

- subsequently measured at fair value (either through profit or loss ("FVPTL") or other comprehensive income ("FVOCI"); and
- subsequently measured at amortized cost.

The classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, term deposits, deposits and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

  Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses to profit or loss upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

  A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

  Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

  A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

- Financial assets at FVOCI

  Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

  The Company classifies cash, term deposits, deposits and trade and other payables as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

Derivative financial instruments

The Company has not entered into any financial derivative contracts.

(b) Impairment of financial instruments

The Company assesses, on a forward looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(c) Cash

Cash consists of cash deposits held in Canadian banks.

(d) Term deposits

Term deposits consist of short-term investments with maturities of greater than three months from the date of investment.

(e) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity.

(f) Jointly controlled operations and jointly controlled assets

The Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company’s assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements structured through joint venture arrangements.

(g) Property and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of loss and comprehensive loss as incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be determinable when proved and/or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment. Any impairment recognized during a period, is charged as additional depletion and depreciation expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

Development and production costs

Property and equipment, which includes oil and gas development and production assets, are initially measured at cost and subsequently carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGUs for impairment testing.

When significant parts of an item of property and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of loss and comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of loss and comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of periodic servicing of property and equipment are recognized in operating expenses as incurred.

(iii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators, in accordance with Canadian Securities Administration National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of furniture and equipment is based on estimated useful lives and is calculated using the declining balance method at rates ranging from 20% - 45%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(h) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs of disposal of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the statement of loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date, if facts and circumstances indicate 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, if no impairment loss had been recognized.

(i) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

The Company's decommissioning obligation is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date at a risk-free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, revisions to the amount of the original estimate, changes in the discount rate or risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and other assumptions are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(j) Revenue recognition

The Company recognizes revenue from the sale of oil when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon. Sales of oil are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(k) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on the decommissioning obligation and impairment losses recognized on financial assets. Interest income is recognized as it accrues in the statement of loss and comprehensive loss, using the effective interest method.

(l) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Per share amounts

Basic per share amounts are calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as warrants and stock options granted. Anti-dilutive instruments are not included in the determination of diluted per share amounts.

(n) Changes in accounting standards

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained ear*nings and applies the standard prospectively.*

IFRS 16 results in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized.

The adoption of IFRS 16 did not have any impact on the Company's financial statements as the Company used the practical expedient of accounting for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases permitted by the standard and is not a party to any other lease agreements.

(o) New and amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that there are no such pronouncements that may impact the Company.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment and exploration and evaluation assets

The market value of property and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(b) Cash, term deposits, deposits and trade and other payables

The fair value of cash, term deposits, deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019 and 2018, the fair value of these balances approximated their carrying value due to their short term to maturity.

(in Canadian dollars)

5. Property and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2017	$ 217,798	$ 4,695,538	$ 4,913,336
Additions	–	746	746
Decommissioning revisions	–	23,440	23,440
As at December 31, 2018	217,798	4,719,724	4,937,522
Additions	–	466	466
Decommissioning revisions	–	129,214	129,214
As at December 31, 2019	$ 217,798	$ 4,849,404	$ 5,067,202
Accumulated depletion and depreciation			
As at December 31, 2017	$ 160,702	$ 1,263,540	$ 1,424,242
Depletion and depreciation	15,881	38,433	54,314
As at December 31, 2018	176,583	1,301,973	1,478,556
Depletion and depreciation	11,286	35,877	47,163
As at December 31, 2019	$ 187,869	$ 1,337,850	$ 1,525,719
Net carrying amount			
As at December 31, 2018	$ 41,215	$ 3,417,751	$ 3,458,966
As at December 31, 2019	$ 29,929	$ 3,511,554	$ 3,541,483

Depletion and depreciation:
The calculation of 2019 depletion and depreciation expense included an estimated $0.6 million (2018 – $4.4 million) for future development costs associated with proved plus probable reserves. The Company has not capitalized any directly attributable general and administrative expenses to development and production assets.

Impairment:
The Company did not identify any impairment indicators related to its CGU at December 31, 2019.

At December 31, 2018, the Company identified certain business risks related to its CGU such as a decline in forward commodity prices. As a result, the Company tested its petroleum and natural gas CGU for impairment at December 31, 2018 based on the net present value of cash flows from oil and natural gas reserves as estimated by the Company's independent reserves evaluator at a discount rate of 15%. As at December 31, 2018, the estimate of the 'fair value less costs of disposal' of the Company's petroleum and natural gas assets was sufficiently in excess of the carrying value of the CGU and therefore the Company did not recognize any impairment in 2018.

A 1% increase in the assumed discount rate would not have resulted in impairment in 2018; a 5% decrease in the forward commodity price estimates would not have resulted in any impairment in 2018.

(in Canadian dollars)

The December 31, 2018 impairment test used the following commodity price estimates:

	December 31, 2018	
	AB Synthetic Crude (Light) Cdn$/bbl	Western Canada Select (Heavy) Cdn$/bbl
2019	75.35	50.48
2020	74.47	55.86
2021	77.56	58.17
2022	80.76	60.57
2023	81.44	61.08
2024	82.14	61.61
2025	83.96	62.97
2026	85.83	64.37
2027	87.72	67.24
Escalation rate thereafter	+ 2% per year	+ 2% per year

6. Decommissioning obligation

As at December 31, 2019, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be $637,569 (2018 – $569,855). This amount will be substantially incurred over the next 11 years (2018 – 11 years). The Company calculated the decommissioning liabilities using an average risk-free discount rate of 1.72% (2018 – 2.07%) per annum and an inflation rate of 2% (2018 – 2%) per annum.

	2019	2018
Balance, beginning of year	$ 449,890	$ 466,040
Accretion	9,184	9,410
Revisions	129,214	23,440
Expenditures	(61,687)	(49,000)
Balance, end of year	$ 526,601	$ 449,890

7. Share capital

a) Authorized

Unlimited number of common voting shares with no par value
Unlimited number of preferred non-voting shares with no par value

b) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2017, 2018 and 2019	289,684,072	$ 20,465,084

8. Oil sales

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from the sale of heavy and light-medium oil from non-operated properties. Oil sales were earned from two working interest partners (the property operators) during the

(in Canadian dollars)

2019 (2018 – two working interest partners and property operators) representing 100% of revenue for the years ended December 31, 2019 and 2018 and $nil of accounts receivable at December 31, 2019 (December 31, 2018 – $nil).

Composition of oil sales revenue:

		2019		2018
Light-medium oil	$	41,846	$	47,668
Heavy oil		112,467		115,302
	$	154,313	$	162,970

9. Taxes

The provision for deferred taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

		2019		2018
Loss before income taxes	$	(450,351)	$	(669,392)
Combined federal and provincial statutory income tax rate		26.50%		27.10%
Expected income tax reduction	$	(119,343)	$	(181,405)
Effect of unrecognized deferred tax assets		119,343		181,405
	$	–	$	–

The reduction in the combined federal and provincial statutory income tax rate is due to a reduction in the provincial statutory tax rate from 12% to 11% on July 1, 2019.

The following table summarizes the components of deferred tax:

		2019		2018
Deferred tax assets				
Non-capital loss carryforwards	$	281,630	$	277,216
Deferred tax liabilities				
Property and equipment		(281,630)		(277,216)
	$	–	$	–

Deferred tax assets result from temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

		2019		2018
Non-capital loss carryforwards	$	13,103,856	$	12,960,209
Reorganization costs		77,097		82,900
Decommissioning obligation		526,601		449,890
Other		175,631		175,631
	$	13,883,185	$	13,668,630

As at December 31, 2019, the Company has approximately $2.5 million (2018 – $2.7 million) of tax pools available for deduction against future taxable income. The Company also has non-capital tax losses of approximately $15.7 million (2018 – $15.0 million) available for deduction against future taxable income that begin to expire in 2028.

10. Supplemental disclosures

a) Employee compensation cost

The statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2019, the Company incurred $162,521 (2018 – $164,995) of employee compensation cost which is included in general and administrative expenses.

b) Key management compensation

The Company considers its directors and executives to be key management personnel. As at December 31, 2019, key management personnel included 10 individuals (2018 – 10 individuals).

Key management personnel compensation is comprised of the following:

	2019	2018
Salaries and wages	$ 105,959	$ 105,796
Short-term employee benefits	7,777	10,054
	$ 113,736	$ 115,850

11. Financial instruments

The Company holds various financial instruments as at December 31, 2019. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

(a) Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

(i) Commodity price risk
Due to the volatility of commodity prices, the Company is exposed to adverse consequences in the event of declining prices. The Company did not enter into any oil price contracts to protect its cash flow on future sales in 2019 or 2018. A 5% change in the average commodity price earned by the Company would change oil sales revenue and net loss and comprehensive loss for 2019 by approximately $7,715 (2018 – $8,150).

(ii) Foreign currency exchange risk
Although all of the Company's oil sales are denominated in Canadian dollars, the underlying market prices for oil are impacted by the exchange rate between Canada and the United States. As at December 31, 2019 and 2018, the Company had no forward foreign exchange contracts in place.

(iii) Interest rate risk
The Company does not have any debt subject to floating rates and is therefore not exposed to fluctuations in the market rate of interest.

(in Canadian dollars)

(b) Credit risk

The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners. The Company had no such receivables at December 31, 2019 and 2018.

The maximum exposure to credit risk at is as follows:

		2019		2018
Cash and cash equivalents	$	635,434	$	777,027
Term deposits		8,483,659		8,724,951
	$	9,119,093	$	9,501,978

During 2019, the Company recognized $nil (2018 – $39,630) of bad debt expense for the write-off of uncollectible trade and other receivables.

(c) Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. Historically, the Company has suffered substantial operating losses. As at December 31, 2019, the Company has a working capital surplus of $9,332,013 (2018 – $9,788,170). The Company has sufficient cash resources to ensure its financial obligations, comprised of trade and other payables of $488,001, are met on a current basis.

12. Capital disclosures

The Company considers its capital structure to include working capital and shareholders' equity. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares and/or adjusting its capital spending. The Company monitors its capital based on the current and projected ratios of net debt to cash flow. The Company's objectives in managing its capital structure are to create and maintain flexibility so that the Company can continue to meet its financial obligations; and finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

		2019		2018
Working capital	$	9,332,013	$	9,788,170
Shareholders' equity	$	12,346,895	$	12,797,246

The Company does not have any externally imposed capital requirements as at December 31, 2019.

13. Subsequent event

Subsequent to December 31, 2019, crude oil benchmark prices decreased substantially due to a drop in global crude oil demand triggered by the impact of the COVID-19 virus on the global economy. In March 2020, crude oil prices decreased further due to a breakdown in negotiations between OPEC and non-OPEC partners regarding proposed production cuts. A subsequent tentative agreement between these countries to reduce crude oil production failed to have a positive impact on crude oil benchmark prices. The recent volatility in the crude oil pricing environment may continue and could impact the Company's earnings and cash flows.