



HORIZON PETROLEUM LTD.

Consolidated Financial Statements
(Expressed in Canadian dollars)

For the years ended August 31, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Horizon Petroleum Ltd.

We have audited the accompanying consolidated financial statements of Horizon Petroleum Ltd. which comprise the statements of consolidated financial position as at August 31, 2017 and August 31, 2016, the consolidated statements of loss and comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Horizon Petroleum Ltd. as at August 31, 2017 and August 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of matter – Going Concern

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Horizon Petroleum Ltd. incurred losses and used cash in operations and will need to raise capital to fund its planned operating and investing activities. These conditions, along with other matters as set forth in Note 1 in the consolidated financial statements indicate the existence of a material uncertainty that may cast significant doubt about Horizon Petroleum Ltd. ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

December 22, 2017
Calgary, Canada

HORIZON PETROLEUM LTD.Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at

	August 31, 2017	August 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,851,791	\$ 5,853
Receivables (note 7)	48,901	23,849
Prepaid expenses	12,554	5,898
	1,913,246	35,600
Exploration and evaluation assets (note 8)	2,802,698	-
Acquisition deposit (note 19)	125,788	-
	\$ 4,841,732	\$ 35,600
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (notes 10 & 16)	\$ 176,102	\$ 327,978
Promissory notes payable (note 15)	-	137,636
	176,102	465,614
Decommissioning obligations (note 11)	2,802,697	-
	2,978,799	465,614
Shareholders' equity (deficiency):		
Share capital (note 12)	17,548,206	14,198,204
Reserves (note 13)	624,754	574,311
Warrants (note 13)	97,358	33,440
Deficit	(16,407,385)	(15,235,969)
	1,862,933	(430,014)
	\$ 4,841,732	\$ 35,600

Going concern (note 1)**Commitments** (note 6)**Significant transaction** (note 19)

See accompanying notes to the consolidated financial statements.

Approved by the Board:

“Yogeshwar Sharma”
Director – Yogeshwar Sharma

“David Winter”
Director - David Winter

HORIZON PETROLEUM LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

Year ended August 31,

	2017	2016
Expenses:		
Directors' fees	\$ 35,000	\$ 59,165
Foreign exchange loss (gain)	6,166	(2,586)
Management fees (note 14)	216,000	104,000
Office	14,996	19,141
Professional fees	176,808	160,016
Property investigation costs (note 9)	285,685	208,275
Rent	24,475	52,829
Shareholder communication	127,283	45,452
Share-based payments (note 13)	50,443	71,448
Transaction costs (note 19)	133,608	101,683
Transfer agent and regulatory fees	34,623	40,265
Travel and related costs	63,848	2,734
	<u>(1,168,935)</u>	<u>(862,422)</u>
Other Items:		
Interest income	4,627	87
Interest expense (note 15)	(7,108)	(6,095)
	<u>(2,481)</u>	<u>(6,008)</u>
Loss and comprehensive loss for the year	<u>\$ (1,171,416)</u>	<u>\$ (868,430)</u>
Basic and diluted loss per common share	<u>\$ (0.07)</u>	<u>\$ (0.12)</u>
Basic and diluted weighted average number of common shares outstanding	<u>17,901,216</u>	<u>7,534,250</u>

See accompanying notes to the consolidated financial statements.

HORIZON PETROLEUM LTD.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
Years ended August 31,

	2017	2016
Cash provided by (used in):		
Operating activities		
Loss for the year	\$ (1,171,416)	\$ (868,430)
Items not affecting cash:		
Share-based payments	50,443	71,448
Unrealized foreign exchange loss	7,820	-
Interest expense	-	6,095
	(1,113,153)	(790,887)
Changes in non-cash working capital items:		
Receivables	(25,052)	(15,800)
Prepaid expenses	(6,656)	2,836
Accounts payable and accrued liabilities	(151,876)	276,745
	(1,296,737)	(527,106)
Financing activities		
Shares issued for cash	3,525,895	160,000
Share issuance costs	(111,975)	(7,950)
Promissory notes payable	(137,636)	137,636
	3,276,284	289,686
Investing activities		
Acquisition (note 6)	(1)	-
Acquisition deposit (note 19)	(133,608)	-
	(133,609)	-
Decrease in cash and cash equivalents during the year	1,845,938	(237,420)
Cash and cash equivalents, beginning of year	5,853	243,273
Cash and cash equivalents, end of year	\$ 1,851,791	\$ 5,853

See accompanying notes to the consolidated financial statements.

HORIZON PETROLEUM LTD.

Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in Canadian dollars)
Years ended August 31, 2017 and 2016

	Number of shares	Share Capital	Warrants	Reserves	Deficit	Total
Balance, August 31, 2015	7,354,942	\$ 13,927,594	\$ 51,244	\$ 451,619	\$ (14,367,539)	\$ 62,918
Loss for the year	-	-	-	-	(868,430)	(868,430)
Private placement	533,333	160,000	-	-	-	160,000
Share issuance costs	-	(9,390)	1,440	-	-	(7,950)
Warrants	-	(32,000)	32,000	-	-	-
Reallocation upon expiry of warrants	-	-	(51,244)	51,244	-	-
Shares for debt	506,667	152,000	-	-	-	152,000
Share-based payments	-	-	-	71,448	-	71,448
Balance, August 31, 2016	8,394,942	\$ 14,198,204	\$ 33,440	\$ 574,311	\$ (15,235,969)	\$ (430,014)
Loss for the year	-	-	-	-	(1,171,416)	(1,171,416)
Shares issued for cash, net	29,382,234	3,413,920	-	-	-	3,413,920
Warrants	-	(11,514)	11,514	-	-	-
Finders' warrants	-	(52,404)	52,404	-	-	-
Share-based payments	-	-	-	50,443	-	50,443
Balance, August 31, 2017	37,777,176	\$ 17,548,206	\$ 97,358	\$ 624,754	\$ (16,407,385)	\$ 1,862,933

During the year ended August 31, 2017, the Company completed a share consolidation on a six to one basis. All share numbers have been restated to account for the share consolidation (note 12).

See accompanying notes to the consolidated financial statements.

HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Years Ended August 31, 2017 and 2016

1. Corporate information and Going Concern

Horizon Petroleum Ltd. (“Horizon” or the “Company”) was incorporated in British Columbia. During the year ended August 31, 2014, the Company’s domicile was officially changed to Jersey, Channel Islands. During the year ended August 31, 2016, the Company changed its domicile from Jersey, Channel Islands to Alberta, Canada. Consequently, the Company changed its name from Horizon Petroleum PLC to Horizon Petroleum Ltd. The principal business of the Company is the acquisition, exploration, and development of oil and gas properties.

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

The Company has not generated revenues from operations. These 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 annual consolidated financial statements may be necessary. Material uncertainties as to the Company’s ability to obtain additional financing to fund future operations may cast significant doubt on the Company’s ability to continue as a going concern. The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through financing or other sources, and there are no assurances that such financing will be obtained.

The Company has incurred losses since inception and is currently not generating any revenues except for interest income. For the year ended August 31, 2017, the Company used cash from operating activities of \$1,296,737 (2016 - \$527,106). At August 31, 2017, the Company’s cash balance was \$1,851,791 (2016 - \$5,853) and the working capital position was \$1,737,144 (2016 – deficiency of \$430,014). The Company will be required to spend the required capital expenditures as described in note 6 to keep the acquired French blocks in good standing.

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 (IFRSs), as issued by the International Accounting Standards Board (‘IASB’).

These consolidated financial statements were authorized for issue by the Board of Directors on December 22, 2017.

(b) Basis of consolidation and presentation:

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company’s functional currency.

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in compliance with IFRS 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.

3. Significant accounting policies

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

- (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. The functional currency of the parent entity is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency of the Company's foreign subsidiaries is the EURO.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income (loss) are translated at the average exchange rate for the period; and
- (iii) All resulting exchange differences are recognized in other comprehensive income (loss) as cumulative translation adjustments.
- (iv) Exchange differences that arise relating to long-term intercompany balances that form part of the net investment in a foreign operation are also recognized in a separate component of equity through other comprehensive income (loss).
- (v) On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in this separate component of equity is recognized in profit or loss.

- (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:

- (i) Financial

assets:

Financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified at FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. The Company has no financial assets classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that provide objective evidence of impairment, which are recognized in profit and loss. The Company's cash and cash equivalents and receivables are classified as loans and receivables.

3. Significant accounting policies (continued):

(ii) Financial liabilities:

All financial liabilities are initially recorded at fair value and designated upon inception at FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's financial liabilities consist of accounts payable and accrued liabilities, which is classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including embedded derivatives, are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. The Company has no financial liabilities classified as FVTPL.

(d) Impairment of financial and non-financial assets:

(i) Impairment of financial assets:

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

(ii) 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.

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.

3. Significant accounting policies (continued):

(e) Exploration and evaluation (E&E) assets

Pre-license or property investigation costs are recognized in the statement of income 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 (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 related cash-generating units ("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. At least once annually, a review of each exploration license or field is carried out to ascertain whether proven and/or probable reserves have been discovered. 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) Property, plant and equipment

Property, plant and equipment (PP&E) are recorded at cost less accumulated depletion, depreciation and amortization and any accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, costs attributable to bringing the asset into operation, and the initial estimate of decommissioning obligations. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items. Costs of developing and acquiring oil and gas properties are capitalized. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling and completion of wells, plant and production equipment costs, and related overhead charges. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method.

Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in profit or loss.

(g) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

3. Significant accounting policies (continued):

(h) 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.

(i) Decommissioning obligations (continued)

Any difference between the estimated decommissioning obligations 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.

(j) 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.

(k) 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 comprehensive 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.

3. Significant accounting policies (continued):

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 comprehensive 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 comprehensive 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 comprehensive 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. 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. The entire fair value model is updated, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

(l) Share-based payments (continued):

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 contributed surplus 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.

(m) Income taxes:

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income 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 substantially enacted by the reporting date.

HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Years Ended August 31, 2017 and 2016

3. Significant accounting policies (continued):

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.

(n) Loss per share:

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

4. New accounting standards, amendments and interpretations:

The Company has not adopted any material new or revised standards during the year ended August 31, 2017.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended August 31, 2017, and have not been applied in preparing these financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, which will supersede IAS 18 – Revenue and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on September 1, 2018.

IFRS 9 – Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on September 1, 2018.

IFRS 16 – Leases

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

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

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.

5. Critical accounting estimates and judgments (continued):

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) Economic recoverability and probability of future economic benefits upon future decision to proceed to development:

The decision to proceed with development with respect to note 3(e) Exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period the new information becomes available. Amounts shown for assets represents costs incurred less any write-downs and recoveries, and are not intended to represent present or future values.

- (b) Share-based payment transactions:

The Company measures the cost of equity-settled transactions with employees 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 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 13.

Key Source of Estimation:

- (a) Decommissioning obligations:

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

6. Acquisition

During August 2017, the Company and Pentanova Energy Corp. ("PEC") (formerly PMI Resources Ltd. ("PMI")), completed a definitive agreement (share purchase agreement ("SPA")), under which PEC assigned to the Company its two Luxembourg subsidiaries, which indirectly hold a 100% working interest, through its wholly-owned subsidiary Petromanas SAS, in two hydrocarbon licences in southwest France known as Ledeuix and Ger.

The Ledeuix and Ger Permits will expire on August 8, 2018 and April 16, 2018, respectively. Under the terms of the license, the Company would be required to spend €3 million on the Ger permit and €8 million on the Ledeuix permit prior to their expiry in order to move to the next exploration phase. The Company is currently working on extending the licences.

6. Acquisition (continued)

The fair values of the identifiable assets acquired and liabilities assumed by the Company were preliminarily allocated as follows:

Net assets	
Exploration and evaluation assets	\$ 2,104,458
Decommissioning obligations	(2,104,457)
	\$ 1
Consideration:	
Cash	\$ 1

The fair value of the decommissioning obligation was initially estimated using a credit adjusted rate of 10%

7. Receivables

The Company's receivables are as follows:

	August 31, 2017	August 31, 2016
Interest income	\$ 3,129	\$ -
GST receivable	45,772	23,849
	\$ 48,901	\$ 23,849

8. Exploration and evaluation assets

	Cost
Beginning of the year	\$ -
Acquisitions	2,104,458
Change in decommissioning obligations	696,575
Foreign exchange	1,665
End of the year	\$ 2,802,698

9. Property investigation costs

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

HORIZON PETROLEUM LTD.

Notes to the Consolidated Financial Statements
 (Expressed in Canadian dollars)
 For the Years Ended August 31, 2017 and 2016

10. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are as follows:

	August 31, 2017	August 31, 2016
Accounts payable	\$ 92,099	\$ 223,003
Due to related parties (Note 14)	49,003	88,975
Accrued liabilities	35,000	16,000
	\$ 176,102	\$ 327,978

11. Decommissioning obligations

The Company has estimated the present value of the reclamation obligations which exist in relation to its properties to August 31, 2017 based on the best available information regarding the timing and amount of expected expenditure and recorded a provision of \$2,104,457. The present value of the future decommissioning obligation as August 31, 2017 assumes three years of settlement and anticipated year of close of 2020, a discount rate of 0%, and an inflation rate of 1.0%.

	August 31, 2017
Provision for reclamation	
Balance, beginning of year	\$ -
Obligations acquired	2,104,457
Change in discount rate, pursuant to asset acquisition	696,575
Foreign exchange	1,665
Balance, end of year	\$ 2,802,697

The decommissioning obligations acquired pursuant to the acquisition was initially recognized using a credit adjusted rate of 10%. It was subsequently revalued using the risk free rate at the time of the acquisition of 0%, resulting in a change of \$696,575.

12. Share capital

Authorized:

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

During May 2017, the Company's common shares were consolidated on a basis of six to one. The numbers of the shares presented in these audited annual consolidated financial statements have all been adjusted to reflect the impact of this share consolidation.

During the year ended August 31, 2017, the Company:

- issued 16,882,334 common shares at \$0.12 per common share for gross proceeds totaling \$2,025,895 pursuant to the completion of two tranches of a non-brokered private placement. In conjunction with the issuance of the shares, the Company incurred share issuance costs of \$111,975 which included cash costs comprised of legal and filing fees of \$19,758 and finders' fees payments of \$92,217, as well as a non-cash cost of \$52,404 relating to the valuation of the issuance of 767,640 finders' warrants. Each finder's warrant enabled the holder to acquire one additional common share for \$0.12 per share for a one-year period. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected life one year; volatility – 110%; dividend rate – nil; risk free interest rate – 0.71%.
- Furthermore, under the SPA, PEC agreed to invest \$1,500,000 into the Company by way of a third tranche of a non-brokered private placement. The Company issued 12,500,000 common shares at a price of \$0.12 per share for gross proceeds totaling \$1,500,000 pursuant to the completion of a non-brokered private placement.

During the year ended August 31, 2016, the Company:

- issued 533,333 common share units for gross proceeds totaling \$160,000 pursuant to the completion of a private placement. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share at a price of \$0.075 per share for a period of two years. In conjunction with the issuance of the shares, the Company incurred total share issuance costs of \$9,390, which included cash costs comprised of legal and filing fees of \$750 and a finder's fee payment of \$7,200, as well as a non-cash cost of \$1,440 relating to the valuation of the issuance of 144,000 finders' warrants. Each finders' warrant enabled the holder to acquire one additional common share for \$0.075 per share. The fair value of the 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 – 0.55%.
- issued 506,667 common shares to three directors of the Company at a deemed price of \$0.05 per share pursuant to the settlement of debt totaling \$152,000.

13. Reserves

(a) Stock options:

Option plan:

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

As at August 31, 2017, the Company had the following outstanding stock options:

	Number of options	Weighted average exercise price
Balance, August 31, 2015	95,333	\$ 0.90
Granted	616,663	0.60
Cancelled	(108,332)	0.60
Balance, August 31, 2016 and 2017	603,664	0.65
Number of options currently exercisable	264,776	\$ 0.65

The weighted average remaining contractual life for the share options outstanding as at August 31, 2017 is 5.35 years (August 31, 2016 – 6.41 years).

As at August 31, 2017, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of options	Exercise price	Expiry date
95,333	\$ 0.90	August 4, 2023
508,331	0.60	December 4, 2022
603,664		

The Company did not grant any stock options during the year ended August 31, 2017.

During the year ended August 31, 2016, the Company granted 616,663 stock options to certain directors and officers of the Company with an exercise price of \$0.60 per share, expiring December 4, 2022. These stock options vest as to 1/3 on December 4, 2016, 1/3 on December 4, 2017 and the final 1/3 on December 4, 2018.

13. Reserves (continued)

(b) Share-based payments:

During the year ended August 31, 2017, the Company granted Nil (2016 – 616,663) stock options. The fair value of the options granted during the year is \$Nil (2016 - \$138,414), based on the Black-Scholes option pricing model. For the year ended August 31, 2017, the share-based payments expense recognized was \$50,443 (2016 - \$71,448).

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

	2016
Risk-free interest rate	1.14%
Expected life of options	7 years
Annualized volatility	153%
Dividend rate	0.00%
Forfeiture rate	0.00%

(c) Warrants:

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

	Number of warrants	Weighted average exercise price
Balance, August 31, 2015	2,222,217	\$ 0.96
Issued	557,333	0.45
Expired	(2,222,217)	0.96
Balance, August 31, 2016	557,333	0.45
Issued	767,640	0.12
Balance, August 31, 2017	1,324,973	\$ 0.26

As at August 31, 2017, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
533,333	\$ 0.45	August 2, 2018
24,000	0.45	August 2, 2018 ⁽ⁱ⁾
<u>767,640</u>	0.12	February 20, 2018 ⁽ⁱ⁾
<u>1,324,973</u>		

(i) finder's warrants

14. Related party transactions

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

	August 31, 2017	August 31, 2016
Executive compensation (1) to (5)	\$ 297,000	\$ 260,000
Non-executive directors' fees (6)	35,000	59,165
Rent (7)	-	50,829
Interest(8)	7,025	6,095
Share-based payments	50,443	71,448
	\$ 389,468	\$ 447,537

- (1) Includes \$96,000 (2016 - \$104,000) in management fees paid or accrued to the Company's VP – Business Development).
- (2) Includes \$3,000 (2016 - \$36,000) in professional fees paid or accrued to the Company's former CFO (resigned October, 2016).
- (3) Includes \$78,000 (2016 - \$45,000) in professional fees paid or accrued to a company related to the Company's current CFO and Corporate Secretary.
- (4) Includes \$Nil (2015 - \$11,250) in director's fees paid or accrued to executive directors and former executive directors of the Company.
- (5) Includes \$Nil (2016 - \$120,000) in property investigation costs and \$120,000 (2016 - \$Nil) in management fees paid or accrued to the current CEO of the Company.
- (6) Includes \$35,000 (2016 - \$59,165) in directors' fees paid or accrued to non-executive directors and former non-executive directors of the Company.
- (7) Includes \$Nil (2016 - \$50,829) in rent paid or accrued to a company with three directors of the Company in common.
- (8) Includes \$7,025 (2016 - \$6,095) in interest expense paid or accrued to directors of the Company (Note 15).

Included in accounts payable and accrued liabilities at August 31, 2017 is \$49,003 (2016 - \$88,975) owing to related parties, all in respect of the above transactions. All related party transactions were conducted on arm's length terms.

15. Loans payable

Promissory notes payable

During the year ended August 31, 2016, the Company received \$137,636 from the issuance of additional promissory notes to three related parties. During the year ended August 31, 2017, a further \$20,000 was received by the Company from the issuance of an additional promissory note issued to a related party with the same terms as the promissory notes disclosed above. During the year ended August 31, 2017, the Company repaid, in full, all of the promissory notes along with related accrued interest of \$13,065.

16. 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:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- 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
- 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, 2017 due to their short term nature

The Company does not have any financial instruments recognized at fair value. The carrying values of cash and cash equivalents, accounts receivables, acquisition deposit, accounts payable and accrued liabilities and promissory notes 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:

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, accounts receivable and acquisition deposit. The Company limits the exposure to credit risk by only investing its cash with high credit quality financial institutions in business and saving accounts, and guaranteed investment certificates, which are available on demand by the Company. The carrying amount of cash, accounts receivables and acquisition deposit represents the Company's maximum exposure to credit risk.

Interest rate risk

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

16. Financial instruments and risk management (continued)

Foreign currency

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

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

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

	August 31, 2017		August 31, 2016	
	Amount in foreign currency	Amount in CAD dollars	Amount in foreign currency	Amount in CAD dollars
United States dollars:				
Accounts payable and accrued liabilities	3,500	\$ 4,402	3,500	\$ 4,615
Great British Pounds:				
Accounts payable and accrued liabilities	3,360	5,453	30,043	51,607
Total financial liabilities		\$ 9,855		\$ 56,222

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, 2017, the Company had cash and equivalents of \$1,851,791 to settle current liabilities of \$176,102. The Company will require further financings to cover its expected cash requirements for the next twelve months. (See note 1 to these financial statements).

17. Capital management

The Company's objectives when managing capital are:

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

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

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

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

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

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

18. Income taxes

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:

	2017	2016
Loss for the year before taxes	\$ (1,171,416)	\$ (868,430)
Statutory tax rate	27%	27%
Expected income tax recovery	\$ (316,282)	\$ (234,476)
Change in unrecognized deferred tax assets	277,432	69,978
Non-deductible items	49,694	12,573
Change in tax rate due to operating jurisdiction and Other	(10,844)	151,925
Total income taxes	\$ -	\$ -

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:

Share issuance costs	\$ 95,290	\$ 10,046
Non-capital losses	<u>28,695,447</u>	<u>261,690</u>
	28,790,737	271,736

Non-capital losses of \$1,315,947 incurred in Canada will expire in 2037. Non-operating losses in France of \$27,379,500 were acquired during the year, none of which a tax benefit has been recognized.

19. Significant transaction

During June 2017, the Company entered into a memorandum of understanding (“MOU”) regarding the acquisition of a 100% interest in up to five conventional oil and gas concessions in onshore Europe.

Under the terms of the MOU, the Company has advanced US\$200,000 to the counterparty to cover certain obligations relating to the concessions going forward where such obligations would be assumed by the Company upon the completion of the transaction. US\$100,000 (Cdn\$133,608) of the advance 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 acquisition costs, while the remaining US\$100,000 (Cdn\$125,788) was advanced as a loan which bears interest at the rate of 6% per annum.