GUARDIAN EXPLORATION INC.

Financial Statements

(Unaudited)

For the Three and Six
Months Ended

June 30, 2019 and 2018

Notice to Reader

The financial statements of Guardian Exploration Inc. and the accompanying interim statement of financial position as of June 30, 2019 and interim statements of comprehensive income, changes in equity and cash flows for the three and six months ended June 30, 2019 are the responsibility of the Company's management.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

Dated: August 26, 2019

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive
Officer

GUARDIAN EXPLORATION INC.
STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2019 AND DECEMBER 31, 2018
(All amounts in Canadian dollars unless indicated otherwise)
(Unaudited)

	Notes	June 30 2019	December 31 2018
Assets			
Current assets			
Cash		1,894	7,777
Accounts receivable		1,446	528
Prepaid expenses		5,500	767
		8,840	9,072
Deposits	3	161,792	161,338
Total assets		**170,632**	**170,410**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		448,625	448,263
Loans from related parties	4	511,358	453,172
		959,983	901,435
Decommissioning liabilities	5	312,216	307,616
Total liabilities		**1,272,199**	**1,209,051**
Shareholders' deficiency			
Share capital	7	15,724,195	15,724,195
Contributed surplus		5,131,404	5,131,404
Deficit		(21,957,166)	(21,894,240)
Accumulated other comprehensive loss		-	-
Total shareholders' deficiency		(1,101,567)	(1,038,641)
Total liabilities and shareholders' deficiency		**170,632**	**170,410**

Going concern (Note 1)
Commitments and contingencies (Note 8)

See accompanying notes to the financial statements.

Approved on behalf of the Board of Directors

"Graydon Kowal"
Graydon Kowal
Director

"David McMillan"
David McMillan
Director

GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(All amounts in Canadian dollars unless indicated otherwise)
(Unaudited)

		Three months ended June 30		Six months ended June 30	
	Notes	**2019**	**2018**	**2019**	**2018**
Revenue					
Petroleum and natural gas		-	-	-	-
		-	-	-	-
Expenses					
Operating		10,032	11,899	9,864	14,085
General and administrative		41,067	71,561	59,821	126,905
Accretion on decommissioning liabilities	5	2,300	2,300	4,600	8,680
Interest	4	4,332	4,304	8,636	8,608
Interest income		(230)	(169)	(454)	(320)
Gain on settlement of accounts payable		(19,541)	-	(19,541)	
		37,960	89,895	62,926	157,958
Other income					
Gain on sale of shares of subsidiary	9		1,019,939		1,019,939
Net income (loss)		**(37,960)**	**930,044**	**(62,926)**	**861,981**
Other comprehensive income					
Foreign currency translation adjustment			109,208		158,428
Total net income (loss) and comprehensive income (loss)		**(37,960)**	**1,039,252**	**(62,926)**	**1,020,409**
Net income (loss) per share					
Basic and Diluted	7	-	0.02	-	0.01

See accompanying notes to the consolidated financial statements.

GUARDIAN EXPLORATION INC.
STATEMENTS OF CHANGES IN DEFICIENCY
FOR THE SIXMONTHS ENDED JUNE 30, 2019 AND THE YEAR ENDED DECEMBER 31, 2018
(All amounts in Canadian dollars unless indicated otherwise)
(Unaudited)

	Notes	June 30 2019	2018
Share capital			
Balance, beginning of year		15,724,195	15,133,363
Share capital additions		-	593,527
Share issuance costs		-	(2,695)
Balance, end of period		15,724,195	15,724,195
Contributed surplus			
Balance, beginning of year		5,131,404	5,131,404
Balance, end of period		5,131,404	5,131,404
Accumulated other comprehensive income (loss)			
Balance, beginning of year		-	(158,428)
Foreign currency translation adjustments		-	158,428
Balance, end of period		**-**	**-**
Deficit			
Balance, beginning of year		(21,894,240)	(22,701,094)
Net income (loss)		(62,926)	806,854
Balance, end of period		**(21,957,166)**	**(21,894,240)**
Total shareholders' deficiency		**(1,101,567)**	**(1,038,641)**

See accompanying notes to the financial statements.

GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(All amounts in Canadian dollars unless indicated otherwise)
(Unaudited)

		Three months ended June 30		Six months ended June 30	
	Notes	**2019**	**2018**	**2019**	**2018**
Cash flows from (used in):					
Operating activities					
Net income (loss)		(37,960)	930,044	(62,926)	861,981
Items not affecting cash:					
Accretion on decommissioning liabilities	5	2,300	2,300	4,600	8,680
Gain on sale of shares of a subsidiary		-	(1,019,939)	-	(1,019,939)
Proceeds from disposition of subsidiary			1		1
Changes in working capital:					
Accounts receivable		(507)	6,825	(918)	2,006
Prepaids		(2,500)	933	(4,733)	(3,722)
Deposits		(230)	(169)	(454)	(320)
Accounts payable and accrued liabilities		(6,581)	(2,275)	362	143,071
Cash used in operating activities		(45,478)	(82,280)	(64,069)	(8,242)
Financing activities					
Issuance of share capital			-	-	-
Proceeds on loans from related parties	4	46,479	73,350	58,186	9,859
		46,479	73,350	58,186	9,859
Change in cash		1,001	(8,930)	(5,883)	1,617
Cash, beginning of period		893	18,964	7,777	8,417
Cash, end of period		**1,894**	**10,034**	**1,894**	**10,034**

See accompanying notes to the consolidated financial statements.

1. BASIS OF PREPARATION AND GOING CONCERN

Guardian Exploration Inc. (the "Company") is engaged in the exploration, development and production of oil and natural gas properties in Western Canada. The Company's registered office is #1250, 639 -5th Avenue SW, Calgary, Alberta, Canada and the principal place of business is 538 Hurricane Drive, Calgary, Alberta, Canada, T3Z 3S8.

The financial statements have been prepared on a historical cost basis and are stated in Canadian dollars, which is functional currency of the Company. The consolidated financial statements have been prepared using policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB) in effect on January 1, 2018.

The consolidated financial statements were authorized by the Board of Directors on August 26, 2019.

Going concern

The financial statements have been prepared by management in accordance with IFRS on a going concern basis. The going concern basis contemplates the realization of assets and the settlement of liabilities in the ordinary course of business. If the Company is unable to raise funds to pay its liabilities as they become due and successfully finance its current and future oil and natural gas properties and projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

For the six months ended June 30, 2019, the Company reported a net loss of $62,926 and negative cash flow from operations of $64,069. As at June 30, 2019, the Company had a working capital deficiency of $951,143, a shareholders' deficit of $1.1 million and an accumulated deficit of $21.96 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt related to the Company's ability to continue as a going concern. If the going concern assumption is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The accompanying financial statements do not include any adjustments that may result if the Company is unable to continue as a going concern, and, such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

Control is achieved where the Company has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. Businesses acquired or disposed of during the year are consolidated or deconsolidated from the effective date of acquisition or until the effective date of disposal. All intra-company transactions, balances, income and expenses are eliminated on consolidation.

As at June 30, 2019, the Company had no subsidiaries.

During the second quarter of 2018, the Company disposed of the shares of all of its wholly owned subsidiaries K2 America Corp. and K2 Operating Corp. and therefore, the Company deconsolidated these entities.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Jointly controlled operations and assets

Most of the Company's oil and gas exploration activities and operations are conducted through unincorporated joint ventures. A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture are made jointly).

When the Company undertakes its activities directly under joint venture arrangements, the Company's share of jointly controlled assets and jointly incurred liabilities are recognized proportionately in the financial statements of the Company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Company and the amounts can be measured reliably.

c) Property, plant and equipment, and exploration and evaluation assets

(i) Recognition and measurement

Pre-license expenditures are expensed in the statements of net income (loss) and comprehensive income (loss) as incurred. The Company accounts for exploration and evaluation ("E&E") costs, having regard to the requirement of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Costs of exploring for and evaluating oil and natural gas properties are capitalized. Such E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses and the projected costs of retiring the assets (if any), but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the statements of loss and comprehensive loss as they are incurred.

E&E assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting a petroleum resource is considered to be determined. The technical feasibility and commercial viability of extracting a petroleum resource is determined when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to assess whether proven and/or probable reserves have been discovered. Upon determination of proven and probable reserves, E&E assets attributable to those reserves are first tested for impairment, and then reclassified from intangible exploration assets to oil and natural gas interests, a separate category within property, plant and equipment.

Items of property, plant and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within 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, plant 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 profit or 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 costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of property, plant and equipment is depleted using the unit of production method by reference to the ratio of production in the quarter to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. The estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports which 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.

Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of nine thousand cubic feet of gas to one barrel of oil.

Tangible equipment, such as drilling, production or well equipment available for use in exploration and evaluation activities, is also depreciated on a unit of production basis unless the estimated useful life of the asset is shorter than that implied by the unit of production rate, in which case the asset is depreciated on a straight-line basis over its estimated useful life.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The estimated useful lives for other assets are as follows:

- Office Equipment - 2 to 5 years
- Fixtures and Fittings - 2 to 5 years
- Computer Software - 2 to 3 years

(iv) Impairment

E&E assets are assessed for impairment when they are reclassified as oil and natural gas interests to property and equipment, and when facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. CGUs represent the smallest group of assets that generate independent cash inflows from continuing use, and they typically consist of oil and natural gas fields in close geographic proximity that share common infrastructure and have independent cash inflows.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from proven and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where the conditions that give rise to an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Decommissioning liabilities

The Company's core 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 unless it arises from the normal course of production activities, in which case it is recognized in profit or loss.

Provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation timing or change in discount rates. The increase in the provision due to the passage of time is recognized as accretion expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized (unless the obligating event was related to production activities). Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established.

The interest rate used to discount future costs is a risk-free rate over the period to when the costs are expected to be incurred.

e) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer. This is usually when legal title passes to the external party, generally at the time product enters the pipeline. Revenue is measured net of discounts, and royalties that are taken 'in-kind' (e.g. oil royalties due to the Alberta Minister of Finance).

f) Financial instruments

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss (“FVTPL”); (ii) those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (“SPPI”). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income (loss).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the account receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Accounts receivable are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Financial instrument de-recognition

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation is discharged, cancelled or expired.

g) Taxes

Tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the statement of net income (loss) and comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

h) Flow-through shares

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the consolidated statement of financial position. When the expenditures are renounced and incurred, the liability is drawn down, a deferred income tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation, and the difference is recognized as income tax expense in comprehensive income (loss).

i) Share-based payments

Equity-settled share-based payments to employees, directors and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of equity instruments is determined using the Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

At the end of each reporting period, the Company assesses its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Warrants to acquire shares are similarly valued at fair value at the grant date using the Black- Scholes pricing model. Warrants which are issued as part of an equity or debt raising process are accounted for as a reduction in the cost assigned to the equity or debt instrument with a corresponding amount recorded in shareholders' equity.

j) Foreign currency

Transactions in foreign currencies are translated to the entities' functional currency. Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the time of the prevailing transaction. Foreign currency translation amounts are recognized in net income (loss).

k) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has designated two operating segments on a geographic basis, Canada and the United States. Segment results include items directly attributable to each segment as allocated on a reasonable basis.

l) Use of estimates and measurement uncertainty

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the reporting date and are based on information available to management at the reporting date. Actual results could differ from those estimated. Key sources of estimation uncertainty and judgment are discussed below.

Estimates of recoverable quantities of proved and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

reported reserves can impact asset carrying values, the provision for decommissioning liabilities and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserve estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and are reviewed by third party reserve engineers.

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for decommissioning and the amounts used for the impairment test calculations are based on estimates of reserves, future commodity prices, royalties, operating expenses, development costs, abandonment costs and the fair value of E&E assets, all of which are inherently uncertain. The Company's reserve estimates are evaluated at least annually by an independent engineering firm.

The amount recorded as decommissioning liabilities is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. 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.

The determination of share-based payment expense requires a calculation of the fair value of the equity instrument at grant date, which involves a number of estimates, in particular, the volatility of the Company's future share price.

The measurement of income taxes payable and deferred income tax assets requires management to make judgments in the interpretations and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of tax returns by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements. The recognition of deferred income tax assets requires judgment as to the existence of future taxable income or reversal of temporary differences to which the tax assets can be applied and benefit realized.

The write down of accounts payable and obligations requires judgment by management as to the likelihood of future collection attempts on those amounts, specifically assessing whether amounts may be considered stale-dated due to lack of collection attempts by the vendor over a period of time, in line with the legal requirements of the jurisdiction in which the Company incurred the liability.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. By their nature, estimates are subject to measurement uncertainty and the effect of changes in such estimates on the consolidated financial statements for current and future periods could be significant.

Key judgments of the Company include the assessment of functional currency for each entity and the determination of cash generating units.

(All amounts in Canadian dollars unless indicated otherwise)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) New and future accounting standards

Standards and amendments effective in the current year

IFRS 9 - Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, "Financial Instruments". IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

The Company has adopted this new standard using the retrospective approach where the cumulative impact of adoption will be recognized in deficit as of January 1, 2018 and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39, "Financial Instruments: Recognition and Measurement", to the new measurement categories under IFRS 9.

The following table summarizes the classification impacts of the adoption of IFRS 9:

Financial instrument	Previous classification under IAS 39	New classification under IFRS 9
Financial assets:		
Cash	Loans and receivables	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans to related parties	Other financial liabilities	Amortized cost

IFRS 15 - Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, "Revenue from contracts with customers". IFRS 15 replaced existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers.

The Company has completed its evaluation of the impact of IFRS 15 on its consolidated financial statements. The Company's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the consolidated financial statements. The Company has elected to apply the standard on a modified retrospective basis. Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required.

(All amounts in Canadian dollars unless indicated otherwise)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

Standards and amendments issued but not yet adopted

IFRS 16 - Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. The Company is still evaluating the impact the adoption of this standard will have on its financial statements. The Company expects to apply the standard by its mandatory effective date.

3. DEPOSITS

The total amount includes an abandonment and reclamation deposit in the amount of $45,792 (December 31, 2018 - $45,338) with Alberta Energy Conservation Board and a deposit of $116,000 (December 31, 2018 - $116,000) with the British Columbia Oil and Gas Commission.

4. LOANS FROM RELATED PARTIES

The Company obtains loans from certain related parties from time to time to supplement its working capital. During the six months ended June 30, 2019, the Company obtained additional loans from related parties in the amount of $49,558. As at June 30, 2019 related party loans, including accrued interest, totaled $511,358. The related party loans are with companies controlled by certain directors of the Company. Certain loans accrue interest at the rate of 15% per year, payable monthly, and are secured against the assets of the Company. The following loan principal and interest owing amounts are payable to related parties at June 30, 2019:

	Principal	Interest	Total
Deckland Inc.(1)	103,650	-	103,650
Guardian Helicopters(1)	203,798	-	203,798
G. Kowal	114,792	89,118	203,910
	422,240	89,118	511,358

(1) A private company wholly owned and controlled by Mr. G. Kowal, CEO and President of the Company.

(All amounts in Canadian dollars unless indicated otherwise)

4. LOANS FROM RELATED PARTIES *(continued)*

	$
Balance, December 31, 2016	**2,250,450**
Advances	155,311
Shares for debt conversion	(2,105,968)
Balance, December 31, 2017	**299,793**
Advances	185,7594
Eliminated on the sale of a subsidiary	(112,905)
Balance, December 31, 2018	**372,682**
Advances	**49,558**
Balance, June 30, 2019	**422,240**
Accrued interest payable, June 30, 2019	89,118

5. DECOMMISSIONING LIABILITIES

The total undiscounted amount of cash flows required to settle the obligations as measured at June 30, 2019 are estimated to be $312,216 (December 31, 2018 - $307,616). These payments are expected to be made over the next 3 years. The decommissioning obligations have been calculated using an inflation rate of 2% (2018 – 2%). A reconciliation of the Company's undiscounted decommissioning liabilities is provided below:

	June 30 2019 $	December 31 2018 $
Balance, beginning of the year	307,616	720,344
Abandonments	-	-
Changes in estimates and foreign exchange	-	(11,776)
Accretion	4,600	6,027
Eliminated on sale of a subsidiary	-	(406,979)
Balance, end of the period	**312,216**	**307,616**

6. INCOME TAXES

The following table reconciles the expected income tax expense at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2018:

	2018 $
Income (loss) before taxes	806,854
Statutory income tax rates	27%
Expected income tax expense (recovery)	217,851
Deferred tax benefits not recognized	(217,851)
Income tax expense (recovery)	-

(All amounts in Canadian dollars unless indicated otherwise)

6. INCOME TAXES *(continued)*

As at December 31, 2018, the Company has Canadian non-capital losses of approximately $11,036,429 (December 31, 2017 - $10,932,000) which may be carried forward to apply against future years' taxable income for Canadian tax purposes, subject to final determination by taxation authorities and will expire between 2026 and 2035. As at June 30, 2019, the Company has not completed its United States Federal or State income tax filings. Consequently, the non- capital losses in the United States cannot be verified.

The Company also has Canadian capital losses of approximately $40,696,071 (2017 - $41,200,000) which may be carried forward to apply against future years' taxable capital gains for Canadian tax purposes subject to final determination by taxation authorities. At this time, management does not believe that it is probable that the Company will generate sufficient taxable income in the future to use any of its Canadian tax pools and loss carry forwards.

7. SHARE CAPITAL

a) Authorized shares

- Unlimited number of no par value common voting shares.
- Unlimited number of no par value preferred shares, issuable in series.

b) Shares issued and outstanding

Share Capital	Number of Shares	Amount $
Balance, December 31, 2016	7,447,546	12,630,220
Shares issued	50,062,862	2,503,143
Balance, December 31, 2017	57,510,408	15,133,363
Shares issued	16,803,340	593,527
Share issuance cost	-	(2,695)
Balance, December 31, 2018 and June 30, 2019	74,313,748	15,724,195

During the year ended December 31, 2018, the Company entered a shares for debt agreement upon the sale of a subsidiary. Under the agreement, the Company issued 16,803,340 shares to settle a debt to the subsidiary of $593,527.

During the year ended December 31, 2017, the Company entered into shares for debt agreements with several related parties and trade creditors. The Company issued 50,062,862 shares at a value of $0.05 per share to settle $2,503,143 of debts including $2,409,979 of related party debt and $93,164 of trade accounts payable.

7. SHARE CAPITAL *(continued)*

c) Stock options

The Company has a stock option plan under which directors, officers, employees and consultants are eligible to receive stock option grants. The stock options issued shall not exceed 10% of the issued shares of the Company at the time of granting of options. The exercise price and vesting terms of any options granted are fixed by the Board of Directors of the Company at the time of grant. There were no stock options issued during the period ended June 30, 2019 (2018 – $Nil) and there are no stock options outstanding as at June 30, 2019 or 2018.

d) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 74,313,748 for the six months ended June 30, 2019 (2018 – 58,531,605) and 74,313,748 for the three months ended June 30, 2019 (2018 - 59,541,581). There were no dilutive instruments in place as at June 30, 2019.

8. COMMITMENTS AND CONTINGENCIES

a) Contractual

Under the terms of an employment contract with the Chief Executive Officer, the Company is committed to pay (i) severance equal to 24 months' base salary; (ii) compensation for loss of employee benefits; (iii) all accrued but unpaid bonuses; and (iv) accrued and unpaid salary, benefits, perquisites and expenses to the termination date and any un-received vacation allotment (see Note 9).

b) Other

The Company is involved in a number of legal claims associated with the normal course of operations. The Company believes it has made adequate provisions for such legal claims. The Company has not presented a detailed breakdown of the claims as it may prejudice the position of management on these claims. While the outcome of these claims is uncertain, and there can be no assurance that such claims will be resolved in the Company's favour, the Company does not believe that the outcome of adverse decisions in any proceedings related to these claims, or any amount which it may be required to pay, would have a material adverse impact on its financial position, results of operations or liquidity.

9. RELATED PARTY TRANSACTIONS

a) The Company from time to time obtains loans from related parties. Shareholders loans accrue interest at the rate of 15% per year, payable monthly, and are secured against the assets of the Company. The remaining related party loans do not accrue interest. The loans and advances do not have maturities and are payable upon demand (see Note 4).

b) Advances from Guardian Helicopters, a company owned by Graydon Kowal, CEO and director of the Company, amounted to $24,919 in the six months ended June 30, 2019 (2018 - $32,176).

(All amounts in Canadian dollars unless indicated otherwise)

9. RELATED PARTY TRANSACTIONS *(continued)*

At June 30, 2019, $203,798 (December 31, 2018 - $178,879) remains outstanding within accounts payable and accrued liabilities.

c) Advances from Deckland Inc, a private company owned by Graydon Kowal, CEO and director of the Company, amounted to $24,639 in the six months ended June 30, 2019 (2018 - $62,263). At June 30, 2019, the amount of $103,650 (December 31, 2018 - $79,011) remains outstanding within accounts payable and accrued liabilities.

d) Legal fees in the amount of $12,518 for the six months ended June 30, 2019 (2018 - $3,965) have been incurred with a legal firm of which a past Company director is a partner. $35,040 is payable to this legal firm at June 30, 2019 (December 31, 2018 - $25,124) and is included in accounts payable and accrued liabilities.

e) The transactions from items (a) to (d) are in the normal course of business.

f) Total wages, salaries, benefits and other personnel costs included in the statements of net income (loss) and comprehensive income (loss) for the six months ended June 30, 2019 were $22,202 (2018 - $26,925). The aggregate remuneration of key management for the six months ended June 30, 2019 was $22,202 in salaries, benefits and consulting fees (2018 - $19,425).

10. SEGMENT DISCLOSURES

For the six months ended June 30, 2019:

	Canada $	United States $	June 30, 2019 $
Assets	170,632	-	170,632
Liabilities	1,272,199	-	1,272,199
Net loss for the period	(62,926)	-	(62,926)

For the year ended December 31, 2018:

	Canada $	United States $	Dec 31, 2018 $
Assets	170,410	-	170,410
Liabilities	1,209,051	-	1,209,051
Income for the year	806,854	-	806,854

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

The Company's carrying value of cash, accounts receivable, accounts payable and accrued liabilities and loans from related parties approximates their fair values, due to the immediate or short-term maturity of

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT *(continued)*

these instruments. The carrying value of the deposits (see Note 3) does not differ significantly from its fair value.

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, and loans from related parties on the statements of financial position are carried at amortized cost. Investments and cash are carried at fair value. All of the fair value items are transacted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's financial assets carried at fair value are considered Level 1.

b) Interest rate risk

At June 30, 2019, the Company is not significantly exposed to interest rate cash flow risk in relation to its loan from related parties, which are at a fixed rate of interest.

c) Commodity price risk

The nature of the Company's operations results in an exposure to fluctuations in commodity prices. At June 30, 2019, the Company had no financial derivative or physical delivery contracts in place.

d) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk on the translation of its U.S. dollar denominated subsidiary. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The risk was mitigated by the sale of K2 America Corp. And K2 Operating Corp during the second quarter of 2018.

e) Capital management

The Company's objective is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company defines

(All amounts in Canadian dollars unless indicated otherwise)

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT *(continued)*

capital as shareholder equity, working capital and credit facilities, when available. The Company manages its capital structure, including making adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but, rather, promotes year over year sustainable growth in net income and funds flow. There have been no changes to the Company's objectives in managing capital or in management's management of capital since the previous period.

The capital structure of the Company is as follows:

	June 30, 2019 $	December 31, 2018 $
Total shareholders' deficiency	(1,101,567)	(1,038,641)
Working capital deficiency	(951,143)	(892,363)

f) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company is subject to credit risk on its cash and accounts receivable. The Company's cash is held at major financial institutions, and, as such, is subject to only minor credit risk. A majority of the Company's accounts receivable at the balance sheet date arises from crude oil, natural gas liquids and natural gas sales, as well as recoverable government remittances. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. Account receivables outstanding for greater than 90 days are considered overdue. At June 30, 2019, $Nil of accounts receivable was considered overdue but not impaired (December 31, 2018 - $Nil).

The Company assesses if there has been any impairment of its financial assets on a quarterly basis.

g) Liquidity Risk

Liquidity risk includes the following, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value less than what they are worth; or,
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. The variables include, but are not limited to, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices,

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT *(continued)*

taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risk may necessitate the Company to conduct equity issues, obtain project debt financing, enter into joint venture arrangements or carry out asset divestitures. There is no assurance that adequate funds will be available to the Company in a timely manner (refer to Note 1 Going Concern). The loans from related parties are due upon demand. All accounts payable and accruals are due within thirty days of period end.

12. SETTLEMENT OF ACCOUNTS PAYABLE

Periodically, certain debts of the Company become statute barred and/or management negotiated the settlement of debt at a value less than the amount recorded. During the six months ended June 30, 2019, the Company recorded a gain on the settlement of accounts payable of $19,541 (2018 - $Nil).