

Silk Road Energy Inc.

INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

SILK ROAD ENERGY INC.
Index to the Condensed Interim Financial Statements
For the three months ended June 30, 2020 and 2019

FINANCIAL STATEMENTS

Condensed Interim Statements of Comprehensive Loss	1
Condensed Interim Statements of Financial Position	2
Condensed Interim Statements of Changes in Shareholders' Equity	3
Condensed Interim Statements of Cash Flows	4
Notes to the Condensed Interim Financial Statements	5 - 19

Silk Road Energy Inc.
INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
As at June 30, 2020 and 2019

ASSETS	2020	2019
Current assets		
Cash	\$ 69,113	3,822
Accounts receivable	6,694	0
	75,807	3,822
Petroleum and natural gas interests (Note 5)	20,219	25,441
Total assets	\$ 96,026	29,263
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 727,275	699,509
Decommissioning liability (Note 6)	94,421	87,051
Total liabilities	\$ 821,696	786,560
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 8)	1,296,729	1,214,993
Contributed surplus	162,341	162,341
Deficit	(2,184,740)	(2,134,631)
Total shareholders' deficiency	(725,670)	(757,297)
Total liabilities and shareholders' deficiency	\$ 96,026	29,263

Going concern (Note 1)

Subsequent event (Note 13)

On Behalf of the Board of Directors

"Signed Paul Craig"

Director

"Signed Vladimir Katic"

Director

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.**INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS***(Expressed in Canadian Dollars)**For the three months ended June 30, 2020 and 2019*

		2020		2019
Petroleum and natural gas revenue, net of royalties	\$	0	\$	0
Other income				
Royalty recoveries		0		1,424
Operating cost recoveries		8,634		657
		8,634		2,081
Expenses				
Operating costs		1,665		167
General and administrative		30,872		10,485
Depletion (Note 5)		1,448		849
Impairment (Note 5)		318		4,970
Accretion (Note 6)		319		420
		34,622		16,891
Net loss and comprehensive loss	\$	(25,988)	\$	(14,810)
Loss per share (Note 8)				
Basic and diluted	\$	(0.0022)	\$	(0.0012)
Weighted average number of common shares outstanding		12,012,788		12,012,788

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.**INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY****For the three months ended June 30, 2020 and 2019***(Expressed in Canadian Dollars)*

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance at June 30, 2018	12,012,788	\$ 1,214,993	\$ 162,341	\$ (1,836,144)	\$ (458,810)
Net loss for the period	0	0	0	(298,487)	(298,487)
Balance at June 30, 2019	12,012,788	1,214,993	162,341	(2,134,631)	(757,297)
Issuance of shares	0	81,736	0	0	81,736
Net loss for the period	0	0	0	(50,109)	(50,109)
Balance at June 30, 2020	12,012,788	1,296,729	162,341	(2,184,740)	(725,670)

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.**STATEMENTS OF CASH FLOWS***For the three months ended June 30, 2020 and 2019*

	2020	2019
OPERATING ACTIVITIES		
Net loss for the period	\$ (25,988)	\$ (14,810)
Depletion (Note 5)	1,448	849
Impairment (Note 5)	318	4,970
Accretion (Note 6)	319	420
Change in working capital accounts:		
Account receivable	(6,694)	(0)
Accounts payable and accrued liabilities	14,152	9,398
Cash provided by (used in) operating activities	(16,445)	827
Issuance of preferred shares	81,736	0
Cash provided by financing activities	81,736	0
Increase (decrease) in cash	65,291	827
Cash (bank indebtedness), beginning of period	3,822	2,995
Cash (bank indebtedness), end of period	\$ 69,113	\$ 3,822

The accompanying notes form an integral part of these financial statements.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

1. Nature of Operations and Going Concern

Silk Road Energy Inc. (the "Company") was incorporated under the laws of the Province of Alberta on November 9, 2010. The Company's principal business activity is the exploration, development and production of petroleum and natural gas assets in Alberta. The address of the registered head office is Suite 1900, 520 3rd Avenue SW, Calgary, AB T2P 0R3.

a) Going concern

The Company has been cease traded since August 9, 2019. During the period, the Company incurred net losses of \$25,988 (2019 – \$14,810), had accumulated a deficit of \$2,184,740 (2019 - \$2,134,631) and no current sources of cash inflows. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Management has been and continues to be active in seeking alternative sources of funding to lift its cease trade order. The Company is also looking for potential asset acquisitions that will generate future positive cash flows.

The Company's ability to continue as a going concern is dependent upon its ability to complete asset acquisitions, attain profitable operations, generate sufficient funds to commence its future operations to repay its debts as they come due, and continue to obtain sufficient capital from investors or other sources of financing to meet its current and future obligations. However, there is no assurance that these initiatives will close as anticipated, and the Company may require additional sources of financing.

These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

2. Basis of Preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC") and in effect at September 30, 2019.

The financial statements were authorized for issue by the Board of Directors on May 26, 2021.

b) Basis of measurement

These financial statements have been prepared on a historical cost basis except for cash and share-based payment transactions which are measured at fair value.

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and effect on financial statements or changes in such estimates in future years could be material. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to estimates are recognized in the year in which the estimate is revised.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

2. Basis of Preparation *(continued)*

d) Use of estimates and judgments

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

Cash-generating-units ("CGUs") determination

The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality. The Company has determined that at June 30, 2020 it has two (2019 – two) CGUs being Thornbury and Bashaw.

Oil & gas reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to prove and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gas interests. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of loss and comprehensive loss as further information becomes available and as the economic environment changes.

Depletion

Depletion of petroleum and natural gas interests is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of petroleum and natural gas interests including production equipment and facilities are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations.

The calculation of the unit-of-production rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved and probable reserves.
- Changes in estimates of future development costs.
- The effect on proved and probable reserves of differences between actual production as compared to forecasts as well as commodity price assumptions.
- Unforeseen operational issues.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

2. Basis of Preparation *(continued)*

d) Use of estimates and judgments *(continued)*

Impairment indicators

The Company assesses its petroleum and natural gas ("P&NG") interests for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment of impairment for P&NG interests involves comparing the carrying value of the CGU with the higher of value in use and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids.

Decommissioning obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Provision for doubtful accounts

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL") on receivables for which there has been a significant increase in credit risk since initial recognition. The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Share based payments

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the options, the expected volatility of the Company's shares, expected life of the options, expected dividends, and the risk-free rate of return. The Company estimates volatility based on the historical volatility of similar entities following a comparable period in their lives. The expected life of the options is based on historical experience and estimates of the holder's behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited, and the rate is adjusted to reflect the number of options that actually vest.

Deferred taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

2. Basis of Preparation *(continued)*

d) Use of estimates and judgments *(continued)*

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. There is a material uncertainty regarding the Company's ability to continue as a going concern. The Company's principal source of cash is from private placements. The Company is dependent on raising funds in order to have sufficient capital to be able to identify, evaluate and then acquire an interest in assets or a business.

3. Significant Accounting Policies

a) Joint arrangements

The Company conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities.

Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

b) Financial instruments

i) Financial assets - Pursuant to IFRS 9 – Financial instruments ("IFRS 9"), the classification of financial assets is based on the Company's assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through other comprehensive income ("FVOCI"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss ("FVTPL"): assets that do not meet the criteria for amortized cost or FVOCI.

Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the statements of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Cash has been classified as FVTPL. Accounts receivable has been classified as amortized cost.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

3. Significant Accounting Policies *(continued)*

b) Financial instruments

ii) Financial liabilities - The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in statement of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the statement of loss and comprehensive loss.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Accounts payable and accrued liabilities have been classified as amortized cost.

c) Revenue recognition

Effective October 1, 2018, the Company adopted IFRS 15 on a modified retrospective basis. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company principally generates revenue from the sale of commodities, which primarily consist of natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

3. Significant Accounting Policies *(continued)*

d) Petroleum and natural gas ("P&NG") interests

P&NG interests are carried at cost, less accumulated depletion and accumulated impairment losses. The cost of an item of P&NG interests consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the period to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production.

These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&NG interests is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in loss in the period incurred.

e) Impairment of assets

Non-financial assets

At each financial reporting date, the carrying amounts of P&NG interests are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

In assessing value in use, the estimated future cash flows 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. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant view of the risks associated with the assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in prior periods 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, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in net loss.

Tax expense is comprised of current and deferred tax expenses. Tax expense is recognized in net loss except to the extent that the tax expense related to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

3. Significant Accounting Policies *(continued)*

e) Impairment of assets *(continued)*

Deferred tax is recognized using the liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

f) Per share amounts

Basic loss per share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of "in-the-money" stock options and warrants would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow that are only released upon contingent events are not included in the calculation of the weighted average number of common shares.

e) Decommissioning liability

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

Decommissioning liabilities are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using a market risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time is recognized as accretion expense, within financing fees, whereas increases or decreases due to changes in the estimated cost are capitalized as P&NG interests. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depleted on the same basis as the P&NG interests to which it relates.

e) Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the financial statements.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

3. Significant Accounting Policies *(continued)*

f) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises 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 net 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 Company obtains the goods or the counterparty renders the service.

4. Accounting Pronouncements

a) Recently adopted accounting pronouncements

IFRS 9, Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial instruments. The standard became effective for fiscal years beginning on or after January 1, 2018. IFRS 9 affects the classification and measurement of financial assets and financial liabilities and the recognition of expected credit losses. The Company adopted IFRS 9 effective October 1, 2018 on a retrospective basis. The prior year comparative information has not been adjusted with respect to the adoption of IFRS 9's classification and measurement requirements as the adoption of IFRS 9 did not result in any material changes.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model for calculating impairment. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable.

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
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

4. Accounting Pronouncements *(continued)*

b) Recently adopted accounting pronouncements *(continued)*

IFRS 15, Revenue from contracts with customers

On May 28, 2014, the IASB issued IFRS 15. The standard replaces IAS 11, Construction Contracts, IAS 18, Revenue, and related interpretations. 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 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 financial statements. The Company has elected to apply the standard on a modified retrospective basis. There was no cumulative transitional adjustment to the opening retained earnings balance required.

c) Future account pronouncements issued by not yet applied

The International Accounting Standards Board (IASB) has issued a number of new standards to come into effect in future periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 16, "Leases". In January 2016, the IASB issued IFRS 16, Leases. The objective of IFRS 16 is to bring all leases on-balance sheet for lessees. IFRS 16 requires lessees to recognize a "right of use" asset and a lease liability calculated using a prescribed methodology. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. The Company has assessed that there will be no significant impact on its financial statements from the implementation of this standard and has been adopted October 1, 2019.

Silk Road Energy Inc.**Notes to the Financial Statements***For the three months ended June 30, 2020 and 2019*

5. Petroleum and Natural Gas Interests**Cost**

Balance, June 30, 2018	\$	250,176
Change in decommissioning liability (Note 6)		(207)
Balance, June 30, 2019	\$	249,969
Change in decommissioning liability (Note 6)		7,370
Balance, June 30, 2020	\$	257,339

Accumulated depletion and depreciation

Balance, June 30, 2018	\$	201,429
Impairment		18,425
Depletion		4,674
Balance, June 30, 2019	\$	224,528
Impairment		11,144
Depletion		1,448
Balance, June 30, 2020	\$	237,120
Net book value, June 30, 2019	\$	25,441
Net book value, June 30, 2020	\$	20,219

At June 30, 2020, the Company determined that indicators of impairment existed as a result of the decline in the market price of oil and gas. The Company performed an impairment test and recorded impairment of \$11,144 (2019 - \$18,425) on its Bashaw CGU which brings the value of the CGU to \$20,219 (2019 - \$25,441). The Company determined the recoverable amounts for its CGUs using the fair value less costs to sell method based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of commodity prices, evaluated reserve volumes, and discount rates specific to the CGU. The calculation of the recoverable amount is sensitive to the assumptions regarding discount rates and commodity prices. The estimate of fair value less costs to sell at 2% (2019 - 2%) was determined using a discount rate of 15% (2019 - 15%) and forecasted cash flows, with escalating prices and future development costs for the Company's proved (2019 - proved plus probable) reserves. The Company did not include any recoverable amount for its probable reserves. The forecast prices used to estimate the fair value less cost to sell are based on the below management's estimates.

Year	AECO Spot (\$/MMBTU)	Year	AECO Spot (\$/MMBTU)
2019	1.80	2022	2.52
2020	2.10	2023	2.65
2021	2.40	Thereafter	2.78

Changes in any of the key judgments, such as a downward revision in reserves, a decrease in forecast benchmark commodity prices, changes in foreign exchange rates, an increase in royalties, or an increase in operating costs would change the recoverable amounts of assets and any changes to the impairment charges would affect net loss.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

6. Decommissioning Liability

Balance at June 30, 2018	\$	77,288
Accretion		1,707
Change in estimate		8,051
Balance at June 30, 2019	\$	87,051
Accretion		319
Change in estimate		7,051
Balance at June 30, 2020	\$	94,421

The Company estimates that the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$94,421 (2019 - \$87,051) which will be incurred over the next 12 years. Settlement of the obligations will be funded from general corporate funds at the time of retirement. An inflation rate of approximately 2.31% has been applied to the estimated abandonment and reclamation costs. Discount rates ranging from 1.02% to 1.67% (2019 - 1.57% to 2.15%) were used to calculate the present value of the decommissioning liability.

7. Income Tax

The net tax provision differs from that expected by applying the combined federal and provincial income tax rates of 26.88% (2019 - 27%) for the period ended June 30, 2020.

	2020	2019
Loss before taxes	\$ (25,988)	\$ (14,810)
Statutory tax rate	26.88%	27%
Expected income tax recovery	(6,986)	(3,998)
Change in enacted tax rates	0	0
Tax benefit not recognized	6,986	3,998
Deferred tax recovery	\$ 0	\$ 0

The statutory rate declined from 27% to 26.88% due to a reduction in the Alberta corporate tax rate to 26.5% on July 1, 2019.

Details of deferred tax assets (liabilities) are as follows:

	2020	2019
Petroleum and natural gas interests	\$ (25,380)	\$ (20,867)
Decommissioning liability	25,380	20,867
Net deferred tax liability	\$ 0	\$ 0

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

7. Income Tax (continued)

Details of the unrecognized deductible temporary differences are as follows:

		2020		2019
Decommissioning liability	\$	25,380	\$	87,051
Non-capital losses		1,606,400		1,556,291
Unrecognized deductible temporary differences	\$	1,631,780	\$	1,643,342

At this stage of the Company's development, it cannot be reasonably estimated that there will be future taxable profits, accordingly there were no deferred income tax assets recognized.

As at June 30, 2020, the Company has a non-capital loss carry-forward balance of approximately \$1,631,780 (2019 – \$1,643,342) available to reduce future years' income for tax purposes. These losses will begin to expire in 2033 if not utilized.

8. Share Capital

a) Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

b) Issued – Common shares

	Number of shares	Amount
Balance, June 30, 2018 and 2019	12,012,788	\$ 1,214,993
Balance, June 30, 2020	12,012,788	\$ 1,214,993

c) Issued – Preferred shares

	Number of shares	Amount
Balance, June 30, 2018 and 2019	0	\$ 0
Issuance of shares	3,269,440	81,736
Balance, June 30, 2020	3,269,440	\$ 81,736

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

9. Share-based Compensation

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

The following table summarizes information about stock options outstanding and exercisable:

	Number of Options	2020 Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Number of Options	2019 Weighted Average Exercise Price	Weighted Average Remaining Life (years)
Balance, beginning of period	1,743,506	\$0.0	0.97	1,743,506	\$ 0.11	0.97
Balance, end of period	1,743,506	\$0.0	0.97	1,743,506	\$ 0.11	0.97

10. Financial Instruments and Risk Management

The Company's financial instruments are comprised of cash, accounts receivable and accounts payable and accrued liabilities. Fair values of financial instruments and discussion of risks associated with financial instruments are presented as follows:

Fair value of financial instruments

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. 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 – inputs to the valuation methodology are not based on observable market data.

Level 1 assumptions are used to value cash. The carrying value for cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial instruments.

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed, and appropriate policies are in place and effective. Financial instruments present a number of specific risks. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: interest rate risk, commodity price risk and foreign currency risk. Other risks associated with financial instruments include credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has no financial instruments that create interest rate risk exposure.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

Commodity risk

The nature of the Company's operations results in exposure to commodity price fluctuations. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the three months ended June 30, 2020.

During the year if production remained constant and the Company realized commodity prices changed by \$1.00 per thousand cubic foot, the Company's net loss would not vary significantly.

Foreign Currency risk

Prices for petroleum are determined in global markets and generally denominated in United States dollars. The Company had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies for the period ended June 30, 2020. An increase in the value of the Canadian dollar relative to the U.S. dollar decreases the revenues received from the sale of petroleum and natural gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar increases the revenues received from the sale of petroleum and natural gas commodities. The impact of such exchange rate fluctuations is not material.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's accounts receivable include trade accounts receivables from petroleum and natural gas marketers and goods and services tax receivable and are subject to normal credit risk. The maximum exposure to credit risk is calculated as the total value of accounts receivable as at June 30, 2020. Significant changes in industry conditions and risks that negatively impact customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies purchasing its oil and natural gas production as well as by the accounts receivable due from the government for goods and services tax receivable.

Accounts receivable consist mainly of GST receivable from the Government of Canada. The Company has been successful in recovering input tax credits and believes credit risk with respect to receivables to be insignificant.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages its cash inflows from operations and capital expenditures to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic environment.

The Company's financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities. Accounts payable consist of invoices payable to trade suppliers for general, administrative, royalty, production and capital expenditures and are usually payable in 30 to 90 days. All financial liabilities are current in nature.

10. Related party transactions

During the period ended June 30, 2020, the Company paid office rental fees of \$0 (2019 – \$0), management compensation of \$0 (2019 - \$0) to key management including all officers and directors of the company. All these transactions were entered into in the normal course of operations.

Key management include all officers and directors of the Company.

		2020		2019
Key management compensation	\$	0	\$	0

As at June 30, 2020, there was an increase of \$0 (2019 - \$0) to accounts payable and accruals to key management.

Silk Road Energy Inc.

Notes to the Financial Statements

For the three months ended June 30, 2020 and 2019

11. Capital Management

The Company's policy is to maintain a strong and stable capital base for the objectives of maintaining financial flexibility, to sustain the development of the Company's current capital projects and for future development of the Company. The Company manages its capital structures and makes adjustments to it in light of changes in economic condition and risk characteristics of the underlying assets. The Company monitors its working capital and expected capital spending and issues share capital to manage its development plans. The Company is not subject to any externally imposed capital requirements.

The Company considers its capital structure to include shareholders' equity.