Range Energy Resources Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

Expressed in Canadian dollars

MANNING ELLIOTT
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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Range Energy Resources Inc.

Opinion

We have audited the consolidated financial statements of Range Energy Resources Inc. (the "Company") which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of changes in deficiency, comprehensive loss and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 16 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which indicates that the Company incurred a net loss of $45,414,947 for the year ended December 31, 2018 and, as of that date, the Company had an accumulated deficit of $92,802,077. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Paul Joseph Leedham.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
April 25, 2019

Range Energy Resources Inc.
Consolidated Statements of Financial Position

Expressed in Canadian Dollars

		December 31, 2018		December 31, 2017 (Restated) (Note 16)
Current assets				
Cash	$	60,444	$	337,909
Loan receivable (note 5)		1		1
Prepaid expenses		43,521		41,936
		103,966		379,846
Non-current assets				
Equipment (note 6)		126		180
Long-term investment (note 7)		1		42,177,000
Total assets	**$**	**104,093**	**$**	**42,557,026**
Current liabilities				
Accounts payable and accrued liabilities (note 10)	$	130,569	$	142,370
Convertible loans payable (note 9)		19,309,649		16,949,869
		19,440,218		17,092,239
Equity (deficiency)				
Share capital (note 8(a) and (b))		49,791,768		49,791,768
Reserves (note 8(c))		23,674,184		23,060,149
Deficit		(92,802,077)		(47,387,130)
		(19,336,125)		25,464,787
Total liabilities and equity	**$**	**104,093**	**$**	**42,557,026**

Nature of operations and going concern (note 1)
Commitment (note 11)
Subsequent event (note 17)

Approved on Behalf of the Board of Directors:

(signed) Toufic Chahine

(signed) Allan Bezanson

The accompanying notes are an integral part of these consolidated financial statements.

Range Energy Resources Inc.
Consolidated Statements of Changes in Deficiency

Expressed in Canadian Dollars

	Share capital		Reserves				(Restated) (Note 16)
	Number of shares	Amount	Warrants	Contributed surplus	Equity component of convertible loans	Deficit	Total equity (deficiency)
Balance, December 31, 2016	856,225,977	$ 49,791,768	$ 9,035,374	$ 12,624,680	$ -	$ (16,199,145)	$ 55,252,677
Warrants expired (note 8(d))	-	-	(2,450)	2,450	-	-	-
Extinguishment of loans (note 9)	-	-	-	(2,405,454)	-	-	(2,405,454)
Equity component of convertible loans (Note 9(c))	-	-	-	-	3,805,549	-	3,805,549
Net loss for the year	-	-	-	-	-	(31,187,985)	(31,187,985)
Balance, December 31, 2017	856,225,977	$ 49,791,768	$ 9,032,924	$ 10,221,676	$ 3,805,549	$ (47,387,130)	$ 25,464,787
Balance, December 31, 2017	856,225,977	$ 49,791,768	$ 9,032,924	$ 10,221,676	$ 3,805,549	$ (47,387,130)	$ 25,464,787
Warrants expired (note 8(d))	-	-	(3,653,849)	3,653,849	-	-	-
Loan modifications (note 9(d))	-	-	-	614,035	-	-	614,035
Net loss for the year	-	-	-	-	-	(45,414,947)	(45,414,947)
Balance, December 31, 2018	856,225,977	$ 49,791,768	$ 5,379,075	$ 14,489,560	$ 3,805,549	$ (92,802,077)	$ (19,336,125)

The accompanying notes are an integral part of these consolidated financial statements.

Range Energy Resources Inc.
Consolidated Statements of Comprehensive Loss

Expressed in Canadian Dollars

	For the years ended December 31, 2018	2017 (Restated) (Note 16)
Expenses		
Audit and related fees	$ 97,655	$ 34,400
Accretion expense (note 9)	1,081,164	931,963
Consulting (note 10)	33,753	42,954
Depreciation (note 6)	54	77
General and administrative (note 10)	72,738	87,640
Interest (note 9)	1,892,651	1,213,166
Legal fees	1,149	8,272
Management fees (note 10)	45,182	121,874
Transfer agent and filing fees	20,325	18,361
Travel and promotion	-	3,000
Loss before other items	(3,244,671)	(2,461,707)
Foreign exchange gain	3,742	181,445
Gain on debt forgiveness (note 10)	2,981	-
Impairment of long-term investment	(42,176,999)	(28,907,723)
Net loss and comprehensive loss for year	$ (45,414,947)	$ (31,187,985)
Loss per share - basic and diluted	$ (0.05)	$ (0.04)
Weighted average number of common shares outstanding - basic and diluted	856,225,977	856,225,977

The accompanying notes are an integral part of these consolidated financial statements.

Range Energy Resources Inc.
Consolidated Statements of Cash Flows

Expressed in Canadian Dollars

	For the years ended December 31, 2018	2017 (Restated) (Note 16)
Operating activities		
Net loss for the year	$ (45,414,947)	$ (31,187,985)
Depreciation	54	77
Accretion expense	1,081,164	931,963
Accrued interest	1,892,651	1,213,166
Gain on debt forgiveness	(2,981)	-
Impairment of long-term investment	42,176,999	28,907,723
	(267,060)	(135,056)
Changes in non-cash working capital items:		
Prepaid expenses	(1,585)	4,665
Accounts payable and accrued liabilities	(8,820)	(37,931)
Cash used in operating activities	(277,465)	(168,322)
Investing activity		
Cash call payments to New Age Al Zarooni 2 Limited (note 7)	-	(11,388,936)
Cash used in investing activity	-	(11,388,936)
Financing activity		
Convertible loans received (note 9)	-	11,832,071
Cash provided by financing activity	-	11,832,071
Increase (decrease) in cash	(277,465)	274,813
Cash - beginning of year	337,909	63,096
Cash - end of year	$ 60,444	$ 337,909

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of operations and going concern

Range Energy Resources Inc. (the "Company") was incorporated under the laws of British Columbia, Canada on March 1, 2005. On October 24, 2006, the Company's common shares were listed and called for trading on the Canadian Securities Exchange ("CSE") and its current symbol is RGO. On February 12, 2007, the Company listed on the Frankfurt Stock Exchange. The Company's corporate head office is located at Suite 810, 789 West Pender Street, Vancouver, BC V6C 1H2. The Company is a development stage company engaged in investing in entities involved in the acquisition, exploration and development of oil and gas properties. As at December 31, 2018, the Company's principal asset is an indirect investment in an oil and gas property referred to as the Khalakan Block, which is domiciled in the Kurdistan Region of Iraq.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2018, the Company incurred a net loss totalling $45,414,947. As at December 31, 2018, the Company has a working capital deficiency of $19,336,252 (2017 - $16,712,393) and an accumulated deficit of $92,802,077. There is a material uncertainty related to these conditions that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The ability of the Company to meet its commitments and ongoing operating expenses will depend upon the following:

- The ability to raise further funds through the issue of equity or debt financing; and,
- The sale of assets in the ordinary course of business.

Although the Company has been successful in obtaining the necessary financing to continue operations in the past, there can be no assurance that it will be able to continue to do so in the future.

If the going concern assumptions were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

Based on the financial position at December 31, 2018, available funds are not considered adequate to meet requirements for fiscal 2019 based on budgeted expenditures for operations and project exploration and investigation. To meet working capital requirements, the Company will have to access financial resources through equity placements or by incurring debt. There can be no assurances that such funds will be available and/or on terms acceptable by the Company.

2. Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on April 25, 2019.

3. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared on an accrual basis and are on a historical cost basis, except for certain financial instruments, which are measured at fair value. The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 4.

These consolidated financial statements are prepared in Canadian dollars. The functional currency of the Company and its subsidiaries is the Canadian dollar.

(b) Consolidation

These consolidated financial statements consolidate the accounts of the Company and its wholly-owned subsidiary, Faucon Hec Resources Ltd. (formerly Range Oil & Gas (North Iraq) Inc.). All intercompany transactions and balances are eliminated on consolidation. Faucon Hec Resources Ltd. had no transactions or activity for the years ended December 31, 2018 and 2017.

(c) Foreign currency transactions

Transactions in currencies other than the functional currency of the reporting entity are recorded at rates of exchange prevailing on the dates of such transactions. Monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in the foreign currency are not re-translated.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on deposit and term deposits with banks with maturities of 90 days or less at inception. The Company does not have any cash equivalents as at December 31, 2018 and 2017.

(e) Equipment

Equipment is stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided for on a declining balance basis at rates calculated to write off the cost less estimated residual value of each asset over it expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life.

Computer hardware and software are being depreciated at the rate of 30% per annum on a declining balance basis.

The carrying value of equipment is assessed annually and any impairment charged to the consolidated statement of comprehensive loss. The expected useful life of equipment is reviewed annually.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in comprehensive loss in the year the item is derecognized.

3. Significant accounting policies – continued

(f) Share-based payment transactions

The Company grants stock options to directors, officers, employees and service providers. Each tranche in an award is considered a separate award with its own vesting period and fair values. The Company applies the fair-value method of accounting for share-based payments. The fair value is calculated using the Black-Scholes Option Pricing Model ("Black-Scholes").

Share-based payments for employees and others providing similar services are determined based on the grant date fair value. Share-based payments for non-employees is determined based on the fair value of the goods or services received or if the fair value of the services received cannot be reliably measured, the options granted are measured at the date on which the Company obtains the goods or services.

Share-based compensation expense is recognized over each tranche's vesting period in the consolidated statement of comprehensive loss, or capitalized as appropriate, based on the number of awards that vest less the estimated forfeitures. The number of forfeitures likely to occur is estimated on the grant date. If stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(g) Share capital

Proceeds from the exercise of stock options and warrants, in addition to the estimated fair value attributable to these equity instruments, are recorded as share capital when exercised. In a unit offering, the Company prorates the proceeds between common shares and warrants using the relative fair value method. Share issuance costs are recorded as a reduction of share capital.

(h) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected payable on the taxable income for the period using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

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

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities, 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.

Deferred tax is provided on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the liability method. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable loss. Deferred tax is also not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the consolidated statement of financial position date.

3. Significant accounting policies – continued

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value net of transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is 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.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is 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.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost, FVOCI, or FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Subsequent measurement and gains and losses

- Financial assets at FVTPL: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the consolidated statement of comprehensive loss. The Company's cash and long-term investment are measured at FVTPL.
- Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of comprehensive loss. Any gain or loss on derecognition is recognized in the consolidated statement of comprehensive loss. The Company's loan receivable is measured at amortized cost.

3. Significant accounting policies – continued

(i) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

Financial assets: Subsequent measurement and gains and losses (continued)

- Debt investments at FVOCI: These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in the consolidated statement of comprehensive loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to the consolidated statement of comprehensive loss. The Company does not have any assets classified as debt investments at FVOCI.
- Equity investments at FVOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in the consolidated statement of comprehensive loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to the consolidated statement of comprehensive loss. The Company does not have any assets classified as equity investments at FVOCI.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement of comprehensive loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of comprehensive loss. Any gain or loss on derecognition is also recognized in the consolidated statement of comprehensive loss. The Company's accounts payable are measured at FVTPL and its convertible loans are measured at amortized cost.

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company enters into transactions whereby it transfers assets recognized in its consolidated statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the consolidated statement of comprehensive loss, unless the transaction involves a creditor that is also a direct or indirect shareholder of the Company that is also acting in its capacity as such, in which case the difference is recognized in the consolidated statement of equity.

3. Significant accounting policies – continued

(i) Financial instruments (continued)

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(v) Impairment

Financial assets and contract assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECL's that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3. Significant accounting policies – continued

(i) Financial instruments (continued)

(v) Impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to the consolidated statement of comprehensive loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(j) Earnings (loss) per share

The calculation of earnings (loss) per share is based on the weighted average number of common shares outstanding in the period. Diluted earnings (loss) per share is calculated whereby all "in the money" stock options and warrants are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period. If the Company incurs net losses during the period, basic and diluted loss per share are the same as the exercise of options and warrants is considered to be anti-dilutive.

(k) Segment reporting

The Company operates in a single reportable operating segment – investing in entities involved in the acquisition, exploration and development of oil and gas properties.

3. Significant accounting policies – continued

(l) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(m) Convertible loans

Convertible loans, where applicable, are separated into their financial liability and equity instrument components and accounted for using the effective interest rate method. The fair value of the liability component at the time of issue is determined based on an estimated interest rate of the convertible loan without the conversion feature. The fair value of the equity component is determined as the difference between the face value and the fair value of the liability component. Issuance costs of the convertible loans are applied as a reduction of proceeds and split pro-rata between the liability and equity components. The issuance costs applied to the liability component are recognized as accretion expense over the term of the convertible loan.

(n) Debt issuance costs

Debt issue costs are recognized in connection with proposed financing transactions which are specifically identified in that the form of debt issuances is known and completion of the financing is probable. When the financing is completed, these costs are recognized and netted against the value of the debt for debt transactions. The debt is subsequently accreted to face value at maturity. The accretion amounts are included in interest and bank charges expense over the life of the debt. Debt issue costs include only those costs which are incremental and directly attributable to the proposed financing transaction. In the event that the transaction is abandoned, previously capitalized debt issue costs are expensed through the consolidated statement of comprehensive loss.

(o) Accounting standards adopted during the period

The Company has adopted the following new standards, along with any consequential amendments effective January 1, 2018.

- IFRS 9, “Financial Instruments” is effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments, and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

  The Company adopted IFRS 9 retrospectively, without restatement of prior year consolidated financial statements. The adoption of IFRS 9 did not impact the carrying value of any of the Company’s financial assets or liabilities on the date of transition. The Company’s financial instruments are accounted for as follows under IFRS 9 as compared to the Company’s previous policy in accordance with IAS 39:

Financial instrument	IAS 39	IFRS 9
Cash	Held-for-trading	FVTPL
Loan receivable	Loans and receivables	FVTPL
Long-term investment	Available-for-sale	FVTPL
Accounts payable	Other financial liabilities	FVTPL
Convertible loans payable	Other financial liabilities	Amortized cost

3. Significant accounting policies – continued

(o) Accounting standards adopted during the period (continued)

- IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a comprehensive five-step model framework for the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

  There was no significant impact on the Company's consolidated financial statements from the adoption of IFRS 15.

(p) Accounting standards and amendments issued but not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2018, and have not been early adopted in preparing these consolidated financial statements.

- IFRS 16 replaces IAS 17, "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company does not expect the adoption of IFRS 16 to have a significant impact on its consolidated financial statements, and plans to apply IFRS 16 on a simplified transition approach and does not intend to restate comparative amounts for the year prior to first adoption.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. Significant accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company has identified the following areas where significant judgments, estimates and assumptions are made, where actual results may differ from these estimates and this may materially affect the Company's financial results or consolidated statement of financial position in future periods.

Significant areas requiring the use of management estimates include the valuation of loan receivable, valuation of the long-term investment, carrying value of convertible loans given the requirement to determine an appropriate discount rate based on similar instruments with no conversion features, valuation of warrants and share-based payments, recognition of deferred income tax assets, and deferred income tax rates.

Significant areas requiring management judgement include:

Going concern

Assessment of the Company's ability to continue as a going concern requires estimates of future cash flows and includes the consideration of other factors, the outcomes of which are uncertain.

4. Significant accounting estimates and judgments – continued

Impairment assessment of loan receivable

Application of the factors of impairment to the facts and circumstances pertaining to the loan receivable requires a significant amount of management judgement.

Utilization of deferred income tax assets

Deferred tax assets require management judgement in order to determine the amounts to be recognized and the likelihood that there will be future taxable income for which the deferred tax assets can be utilized. This includes assessing the timing of the reversal of temporary differences to which deferred income tax rates are applied.

Impairment assessment of long-term investment

Application of the factors of impairment to the facts and circumstances pertaining to the long-term investment requires a significant amount of management judgement. At each reporting date, management obtains financial information of the entity underlying its long-term investment including financial information of entities in which this entity has itself invested in, to determine if there has been a material adverse change in the financial condition of such based on operational results, forecasts, and other developments. As the Company does not have significant influence over the entity underlying its long-term investment (note 7), management may not always be provided complete and unrestricted access to all relevant financial and other information required in making its impairment assessment.

Accounting for long-term investment

Management applies judgment in determining whether the Company has significant influence over an investee in which it holds, directly or indirectly, 20 per cent or more of the voting power of the investee. Management does not consider the Company to have significant influence over the entity underlying its long-term investment (note 7).

Convertible loans

In accordance with the substance of the contractual arrangement, convertible loans are compound financial instruments that are accounted for separately by their financial liability and equity instrument components. The identification of convertible loan components is based on interpretations of the substance of the underlying contractual arrangement and therefore requires management's judgment. The separation of the components affects the initial recognition of the convertible loans at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

Modification versus extinguishment of financial liability

Management's judgment is required in applying IFRS 9 in determining whether the amended and/or restated terms of existing loan agreements are a substantial modification of an existing financial liability and whether such should be accounted for as an extinguishment of the original financial liability.

Management's judgment is also required in assessing whether a modification or extinguishment of an existing financial liability involving a creditor that is also a direct or indirect shareholder of the Company, is one in which the creditor is also acting in its capacity as such.

Share-based payments

The fair value of stock options granted is calculated using the Black-Scholes Option Pricing Model and requires the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

(Expressed in Canadian Dollars)

5. Loan receivable

On March 3, 2012, the Company entered into a Letter of Intent ("LOI") with Blackstairs Energy PLC ("Blackstairs") whereby the Company proposed to acquire 100% of the issued share capital of Blackstairs subject to a number of conditions set out in the LOI, including, satisfactory completion by the Company of its due diligence review of Blackstairs on or before April 30, 2012, entering into a Definitive Agreement and obtaining requisite regulatory and shareholders' approvals, if required. Under the terms of the LOI, the Company loaned Blackstairs US$500,000 for working capital purposes. As security for this loan, certain shares in Blackstairs were pledged to the Company. As the structure of a Definitive Agreement could not be agreed upon, the LOI was terminated on March 29, 2012 and as such, the loan became repayable within 180 days from April 30, 2012, bearing interest at the rate of US prime plus 1.5% per annum compounded monthly until repayment.

Blackstairs failed to repay the loan when due. The Company subsequently took the steps necessary to cause the pledged shares to be transferred to the Company and registered in the name of the Company on Blackstairs' share register.

By letter dated December 22, 2014, the Company was informed that Deloitte & Touche was appointed liquidator of Blackstairs.

On December 21, 2015, the annual general meeting of Blackstairs's creditors was held. The Blackstairs liquidator disclosed at that meeting that the liquidation process is continuing. On December 20, 2016, the liquidator's lawyer wrote a letter to the Company's lawyer stating that the liquidator concluded that Blackstairs's sale of its only asset—a production sharing contract with the government of Senegal—to New Horizon Oil and Gas Limited (trading a T5 Oil and Gas) and the consideration received for that sale represented the best price achievable for this asset. The letter also said that the liquidator has sought court relief under applicable law from its duties as liquidator.

The Company continues to consider what, if any, actions it may take to obtain recovery out of Blackstairs's assets of all or some portion of the outstanding principal of, and accrued and unpaid interest on, the loan.

As the fair value of the pledged shares is indeterminable, the loan receivable was written down by $575,347 to a nominal amount during the year ended December 31, 2013. As at December 31, 2018, total principal of US$500,000 and accrued interest of US$40,944, is due to the Company.

6. Property and equipment

	Computer hardware and software		
	Cost	Accumulated depreciation	Net book value
Balance – December 31, 2016	$ 4,639	$ (4,382)	$ 257
Depreciation	-	(77)	(77)
Balance – December 31, 2017	$ 4,639	$ (4,459)	$ 180
Depreciation	-	(54)	(54)
Balance – December 31, 2018	$ 4,639	$ (4,513)	$ 126

7. Long-term investment

On November 6, 2009, the Company entered into a share acquisition agreement with a privately held company (the "Vendor") under which the Company purchased 49.9% of the common shares of New Age Al Zarooni 2 Limited ("NAAZ2"), a company domiciled in Jersey, Channel Islands. The consideration paid for the shares was as follows:

(a) $16,862,774 (US$16,367,000) cash;
(b) 2,000,000 common shares of the Company with an estimated fair value of $400,000 measured on the date of issuance;
(c) 1,500,000 warrants to purchase 1,500,000 common shares of the Company exercisable for a term of five years at a price of $0.30 per share, valued at $509,293 measured on the date of issuance using the Black-Scholes Option-Pricing Model. These warrants expired unexercised; and,
(d) $46,728 (US$44,000) of expenses reimbursed to the Vendor.

The transaction closed on November 17, 2009. In connection with the transaction, the Company issued 3,250,000 common shares of the Company for corporate advisory services to unrelated third parties. The estimated fair value of these shares was $650,000 measured on the date of issuance and recorded as transaction costs in the consolidated statement of operations and comprehensive loss during the year ended December 31, 2009.

NAAZ2 owns 50% of the common shares of Gas Plus Khalakan Limited ("GPK"), a company domiciled in Jersey, Channel Islands. GPK holds an 80% interest in the Khalakan production sharing contract ("PSC") for an oil and gas resource property ("Khalakan Block") and the Kurdistan Regional Government of Iraq holds the remaining 20% interest. The Khalakan Block consists of two concessions, Blocks 28 and 29 (sometimes referred to as Blocks 6 and 7) and originally comprised 624 square kilometres located in the central part of the Kurdistan Region of Iraq.

Under the GPK shareholders agreement, a company beneficially owned by a third party is entitled to a 40% interest in the net profits ("NPI") of the project. At any time, the 40% NPI may be exchanged for 40% of the issued common shares of GPK for a price equal to US$1 per common share. In addition, a 3.5% interest in the net profits is payable to the current operator under a management services agreement.

The NAAZ2 shareholders agreement requires each shareholder to fund its cash calls based on its ownership interest. If a shareholder fails to fund its portion of these cash calls, the non-defaulting shareholder has the option to fund any shortfalls and thereby increase its relative interest in NAAZ2, and in turn its indirect interest in GPK. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party's interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders agreement. During the year ended December 31, 2018, the Company funded cash calls made by NAAZ2 totalling $Nil (US $Nil) (2017 - $11,388,936 (US $8,767,430)). The Company did not participate in certain requested cash calls towards the end of fiscal 2017, nor in any requested cash calls during fiscal 2018. As a result, the Company's interest has been reduced to 22.1% as at December 31, 2018. Management does not currently intend to fund any additional cash calls in the foreseeable future, and consequently the Company's interest is expected to be further reduced. Refer to *Impairment*, below.

The GPK shareholders agreement requires each shareholder to fund its proportional share of cash calls based on its shareholdings. If a shareholder fails to fund its portion of these cash calls, the non-defaulting shareholder will have the option to fund any shortfalls and thereby increase its relative interest in GPK. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party's interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders agreement.

(Expressed in Canadian Dollars)

7. Long-term investment – continued

Impairment

As at December 31, 2017, the Company determined there was objective evidence of impairment in the carrying value of its long-term investment and recognized an impairment loss of $28,907,723 in 2017. Subsequent to the year ended December 31, 2018, GPK filed for a court order winding up which the Company has no future plans to protest due to it having restricted voting rights under the shareholders agreement. As a result, the Company recognized an impairment loss of $42,176,999 during the year ended December 31, 2018 thereby reducing the carrying value to a nominal amount.

8. Equity

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of shares without par value and an unlimited number of preferred shares, issuable in series. The preferred share rights and restrictions may be set by the Company's directors upon issue.

(b) Private placements

There was no share capital activity for the year ended December 31, 2018 and 2017.

(c) Reserves

Reserves consist of share purchase warrants, the accumulated fair value of common share stock options recognized as share-based compensation and the equity component of convertible loans.

(d) Warrants

	December 31, 2018		**December 31, 2017**	
	Number of warrants	**Amount**	**Number of warrants**	**Amount**
Opening balance	523,048,137	$ 9,032,924	523,523,137	$ 9,035,374
Warrants expired	(122,000,000)	(3,653,849)	(475,000)	(2,450)
Closing balance	401,048,137	$ 5,379,075	523,048,137	$ 9,032,924

During the year ended December 31, 2017, 475,000 finders' warrants expired and $2,450 was transferred from warrants to contributed surplus on the consolidated statement of changes in deficiency.

During the year ended December 31, 2018, 122,000,000 finders' warrants expired and $3,653,849 was transferred from warrants to contributed surplus on the consolidated statement of changes in deficiency.

(Expressed in Canadian Dollars)

8. Equity – continued

(d) Warrants (continued)

At December 31, 2018, warrants outstanding are as follows:

Number of warrants outstanding and exercisable	Exercise price	Fair value of warrants	Expiry dates
29,791,726	$0.07	$ 816,889	May 21, 2019
25,000,000	$0.07	623,215	June 19, 2019
20,000,000	$0.055	497,823	July 17, 2019
20,000,000	$0.05	497,882	October 20, 2019
30,000,000	$0.05	746,500	November 14, 2019
17,800,000	$0.05	145,935	July 14, 2020
6,545,500	$0.05	73,977	August 20, 2020
29,750,000	$0.05	322,757	October 7, 2020
16,403,750	$0.05	149,318	October 30, 2020
10,727,500	$0.05	98,166	November 6, 2020
14,840,375	$0.05	101,656	December 18, 2020
5,180,950	$0.05	35,493	December 29, 2020
41,375,000	$0.05	371,735	January 15, 2021
29,700,000	$0.05	169,046	February 19, 2021
6,247,908	$0.05	35,562	March 1, 2021
42,029,428	$0.05	331,748	March 14, 2021
18,836,000	$0.05	149,367	April 15, 2021
36,820,000	$0.05	212,006	May 20, 2021
401,048,137		$ 5,379,075	

As at December 31, 2018, the weighted average exercise price of warrants exercisable was $0.05 and the weighted average remaining contractual life was 1.60 years.

(e) Stock options

The Company adopted the 2015 Stock Option Incentive Plan (the "Plan") that was approved by the shareholders on July 3, 2015. The aggregate number of shares of the Company's share capital issuable pursuant to options granted under the Plan may not exceed 86,995,435 common shares. Options granted under the Plan may have a maximum term of 10 years. The exercise price of options granted under the Plan shall be determined by the Company's directors, provided that such price shall not be lower than the closing share price on the day before the grant date less the applicable discount permitted under CSE policies. Stock options granted under the Plan may be subject to vesting terms that are set at the discretion of the directors at the time of grant.

(Expressed in Canadian Dollars)

8. Equity – continued

(e) Stock options (continued)

The following table summarizes stock option activity during the years ended December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price of options exercisable	Number of options	Weighted average exercise price of options exercisable
Opening balance	10,250,000	$0.10	12,250,000	$0.12
Options expired	-	-	(2,000,000)	$0.20
Closing balance	10,250,000	$0.10	10,250,000	$0.10

At December 31, 2018, stock options outstanding are as follows:

Number of options outstanding and exercisable	Exercise prices	Expiry date
10,250,000	$0.10	September 11, 2020
10,250,000		

9. Loans and convertible loans

(a) Gulf LNG America, LLC

During the year ended December 31, 2016, the Company received four unsecured loans in the aggregate principal amount of $4,257,218 from a related party Gulf LNG America, LLC, which holds 71.02% of the Company's issued and outstanding common shares ("Gulf"). Each of the four loans was interest bearing at a rate of 7% per annum. Per the amended agreements, the first three loans, together with all accrued and unpaid interest, were due on September 26, 2016. Per the original agreement, the fourth loan, together with all accrued and unpaid interest, was due on December 23, 2016. The Company was unable to repay any of the loans by their respective due dates. As a result, the Company was in default on each loan and the overdue amount of each loan accrued interest at 9% per annum from the date of such non-payment.

On January 11, 2017, the Company received an additional unsecured loan in the amount of $1,175,512 from Gulf. The loan was interest bearing at a rate of 7% per annum and was due on February 11, 2017.

On February 14, 2017, the Company and Gulf entered into a new loan agreement under which Gulf will purchase from time to time secured convertible loans (the "Gulf Secured Convertible Loan Agreement") from the Company. Also on that date, the Company entered into an amendment and restatement agreement with Gulf pursuant to which all existing short-term loans and accrued interest from Gulf described above, in an aggregate amount of $5,603,371, was converted into secured convertible loans under the Gulf Secured Convertible Loan Agreement, and the existing short-term loan agreements were terminated (Note 16). The promissory note evidencing this loan matures on February 14, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and is convertible at the option of Gulf into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On February 12, 2018, the maturity date was extended to May 15, 2018, on May 9, 2018, it was further extended to August 13, 2018 and on August 10, 2018, it was further extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

9. Loans and convertible loans – continued

(a) Gulf LNG America, LLC (continued)

On February 15, 2017, the Company received a secured convertible loan of $1,319,749 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $1,319,749. The maturity date of the principal amount, interest and any fees of the loan is February 15, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On February 12, 2018, the maturity date was extended to May 16, 2018, on May 9, 2018, it was further extended to August 14, 2018 and on August 10, 2018, it was further extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

On March 3, 2017, the Company received a secured convertible loan of $2,007,600 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $2,007,600. The maturity date of the principal amount, interest and any fees of the loan is March 5, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On March 19, 2018, the maturity date was extended to May 16, 2018, on May 9, 2018, it was further extended to August 14, 2018 and on August 10, 2018, it was further extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

On May 25, 2017, the Company received a secured convertible loan of $2,031,500 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $2,031,500. The maturity date of the principal amount, interest and any fees of the loan is May 25, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On May 9, 2018, the maturity date was extended to August 23, 2018 and on August 10, 2018, it was further extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

On June 28, 2017, the Company received a secured convertible loan of $1,175,826 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $1,175,826. The maturity date of the principal amount, interest and any fees of the loan is June 28, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On May 9, 2018, the maturity date was extended to September 26, 2018 and on August 10, 2018, it was further extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

On August 2, 2017, the Company received a secured convertible loan of $1,251,400 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $1,251,400. The maturity date of the principal amount, interest and any fees of the loan is August 2, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On August 10, 2018, the maturity date was extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

On September 11, 2017, the Company received a secured convertible loan of $605,386 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $605,386. The maturity date of the principal amount, interest and any fees of the loan is September 11, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On September 11, 2018, the maturity date was extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

9. Loans and convertible loans – continued

(a) Gulf LNG America, LLC (continued)

On September 25, 2017, the Company received a secured convertible loan of $740,340 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $740,340. The maturity date of the principal amount, interest and any fees of the loan is September 25, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On September 11, 2018, the maturity date was extended to November 12, 2018. The Company is in the process of re-negotiating the terms of this loan.

On October 13, 2017, the Company received a secured convertible loan of $1,247,300 from Gulf made under the Gulf Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of $1,247,300. The maturity date of the principal amount, interest and any fees of the loan is October 15, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. The Company is in the process of re-negotiating the terms of this loan.

All or any portion of the principal amount, accrued interest and fees outstanding under the notes is convertible by Gulf into common shares of the Company at any time before the maturity date, at a conversion price per share set out in the notes, subject to adjustment upon certain events occurring. The conversion price for the loans was approved by the Company's board and by the CSE.

The loans are secured by a general security agreement.

(b) Harrington Global Opportunities Fund S.A.R.L.

On January 11, 2017, the Company received an unsecured loan in the amount of $140,000 from Harrington Global Opportunities Fund S.A.R.L., a significant shareholder of the Company ("Harrington"). The loan was interest bearing at a rate of 7% per annum and was due on February 11, 2017.

On February 14, 2017, the Company and Harrington entered into a new loan agreement under which Harrington will provide from time to time secured convertible loans (the "Harrington Secured Convertible Loan Agreement"). Also on that date, the Company entered into an amendment and restatement agreement with Harrington, pursuant to which all existing short-term loans from Harrington, in an aggregate amount of $140,936, were amended and restated into secured convertible loans under the Harrington Secured Convertible Loan Agreement, and the existing short-term loan agreement was terminated (Note 16). The promissory note evidencing this loan matures on February 14, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On February 12, 2018, the maturity date was extended to May 15, 2018. The Company is in the process of re-negotiating the terms of this loan.

On February 14, 2017, the Company received a secured convertible loan of $160,000 from Harrington made under the Harrington Secured Convertible Loan Agreement. The loan is evidenced by a secured promissory note in favour of Harrington for the principal amount of $160,000. The maturity date of the principal amount, interest and any fees of the loan is February 15, 2018, accrues interests compounded monthly at the rate of 10% per annum (Note 16), and the loan is convertible into common shares of the Company at $0.02 per share. In the event of default, the interest is compounded monthly at a rate of 12% per annum. On February 12, 2018, the maturity date was extended to May 16, 2018. The Company is in the process of re-negotiating the terms of this loan.

All or any portion of the principal amount, accrued interest and fees outstanding under the notes is convertible by Harrington into common shares of the Company at any time before the maturity date, at a conversion price per share set out in the notes, subject to adjustment upon certain events occurring. The conversion price for the loans was approved by the Company's board and by the CSE.

The loans are secured by a general security agreement.

(Expressed in Canadian Dollars)

9. Loans and convertible loans – continued

(c) The fair value of the liability component at the time of issue is determined based on an estimated rate of 20% for loans without the conversion feature. The fair value of the equity component is determined as the difference between the face value of the loans and the fair value of the liability component. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the convertible loan at an effective interest rate of approximately between 18.37% and 18.98%. The present value of above mentioned convertible loans is $19,309,649 at December 31, 2018 (2017 - $16,949,869) with $3,805,549 recognized as equity component (2017 - $3,805,549). During the year ended December 31, 2018, the Company accrued interest and accretion expense of $2,973,815 (2017 - $2,065,554) related to these loans.

The following table summarizes accounting for the convertible loans and the amounts recognized in the liability and equity components during the year ended December 31, 2018 and 2017:

		Liability Component		Equity Component
Balance, December 31, 2016	**$**	**-**	**$**	**-**
Convertible loans issued		14,904,947		3,807,461
Issuance costs allocated		(20,632)		(1,912)
Interest		1,133,591		-
Accretion		931,963		-
Balance, December 31, 2017 (Note 16)		**16,949,869**		**3,805,549**
Modification of loans		(614,035)		-
Interest		1,892,651		-
Accretion		1,081,164		-
Balance, December 31, 2018	**$**	**19,309,649**	**$**	**3,805,549**

(d) The Company determined that the extension of maturity dates relating to convertible loans described in Notes 9(a) and 9(b) represented non-substantial modifications of financial liabilities under IFRS 9, as the respective differences between the net present value of the cash flows under the modified terms was less than 10 percent different from the net present value of the remaining cash flows of the convertible loans prior to modification, both discounted at the original effective interest rate. As these transactions involve creditors that are also direct shareholders of the Company that are also acting in their capacity as such, the resulting difference of $614,035 is recognized in the consolidated statement of equity.

(Expressed in Canadian Dollars)

10. Related party transactions

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company's directors and members of the senior management group.

The Company entered into a corporate management agreement for accounting services with a company controlled by the Chief Financial Officer of the Company (Note 11).

Details of key management personnel compensation are as follows:

Years ended December 31,		2018		2017
Services provided:				
Consulting fees	$	63,000	$	4,725
Management fees		45,182		121,874
Rent and storage		12,600		12,600
Key management personnel compensation	$	120,782	$	139,199

As at		December 31, 2018		December 31, 2017
Balances payable to key management personnel	$	109,887	$	103,331

** The amount payable to key management personnel is included in accounts payable and accrued liabilities on the consolidated statements of financial position. A director of the Company agreed to forgive an amount of $2,981 (2017 - $Nil) owing to him as at December 31, 2018.

11. Commitment

The Company is party to a corporate management and accounting services agreement which automatically renewed for additional 12 months until December 31, 2019 (Note 10). The future minimum payments are $114,000 for the remainder of the year ending December 31, 2019.

(Expressed in Canadian Dollars)

12. Segmented information

The Company's operations comprise one reportable segment. The carrying value of the Company's non-current assets on a country-by-country basis is as follows:

	December 31, 2018			December 31, 2017		
	Canada	Channel Islands	Total	Canada	Channel Islands	Total
Property and equipment	$ 126	$ -	$ 126	$ 180	$ -	$ 180
Long-term investment	-	1	1	-	42,117,000	42,117,000
	$ 126	$ 1	$ 127	$ 180	$ 42,117,000	$ 42,117,180

13. Financial instruments

The Company's financial instruments include cash, loan receivable, long-term investment, accounts payable and convertible loans. The carrying value of cash, amounts receivable, accounts payable and convertible loans payable as presented in these consolidated financial statements are reasonable estimates of fair values due to the relatively short periods to maturity and the terms of these instruments.

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;
Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
Level 3: Inputs that are not based on observable market data.

The Company's financial instruments have been classified as follows:

Financial instrument	Classification	Fair value hierarchy
Cash	FVTPL	Level 1
Loan receivable	Amortized cost	n/a
Long-term investment	FVTPL	Level 3
Accounts payable	FVTPL	n/a
Convertible loans payable	Amortized cost	n/a

The Company holds a long-term investment in NAAZ2 that is considered to be classified as Level 3. The fair value is determined by referring to the most recent equity financing the investee undertook during the period if it can be demonstrated that this was completed with an arms-length party or by using a valuation model that utilizes the net assets. The Company has utilized the valuation model as it has not been able to evidence that equity financing by the investee was completed with arms-length parties.

The following table reconciles the Company's Level 3 fair value investment:

Year ended December 31,	**2018**	**2017**
Beginning balance	$ 42,177,000	$ 71,084,723
Impairment	(42,176,999)	(28,907,723)
Ending balance	$ 1	$ 42,177,000

See the Company's consolidated statement of financial position for financial instrument balances as at December 31, 2018 and 2017.

13. Financial instruments – continued

Risk exposure and management

The Company is exposed to various financial instrument risks and continuously assesses the impact and likelihood of this exposure. These risks include credit risk, commodity price risk, liquidity risk, interest rate risk and currency risk. Where material these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations resulting in financial loss to the Company. The Company's credit risk is primarily attributable to its cash and loan receivable. Cash is held with an investment grade Canadian financial institution as assessed by external rating agencies. Management believes the risk of loss to be minimal. As at December 31, 2018, the Company's maximum credit risk is the carrying value of cash and loan receivable.

(b) Commodity price risk

The Company is subject to price risk from fluctuations in market prices of the commodities underlying its long-term investment. This exposure includes the ability to raise capital with favorable terms. The Company does not currently hold any financial instruments that mitigate this risk.

(c) Liquidity risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due or can only do so at excessive cost. As at December 31, 2018, the Company has a working capital deficiency of $19,336,252 (2017 - $16,712,393). The Company manages liquidity risk by maintaining an adequate cash balance. The Company continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and liabilities.

Contractual undiscounted cash flow requirements of financial liabilities at December 31, 2018 are as follows:

	Carrying value $	Less than 1 year $	Between 2 – 5 years $	More than 5 years $	Total
Accounts payable	130,569	130,569	-	-	130,569
Convertible loans	19,309,649	19,309,649	-	-	19,309,649

(d) Interest rate risk

As at December 31, 2018, the Company does not hold any variable rate term deposits. The Company is not subject to any significant interest rate risk.

(e) Currency risk

As the Company operates in an international environment, some of the Company's transactions and balances are denominated in currencies other than the Canadian dollar. The Company's foreign exchange risk arises primarily with respect to the United States dollar. The Company is required to make regular cash contributions denominated in United States dollars to fund the companies underlying its long-term investment (note 7). Fluctuations in the exchange rate between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at December 31, 2018, a strengthening (weakening) of the Canadian dollar against the United States dollar of 10% would have an insignificant impact on the Company's consolidated statements of comprehensive loss.

(Expressed in Canadian Dollars)

14. Management of capital

The Company manages its capital to ensure it will be able to continue as a going concern and continue the funding of its long-term investment. The Company has no operations that generate cash flow and depends on financings to fund its long-term investment and administrative expenses. The success of each financing depends on numerous factors including a positive oil and gas environment, positive stock market conditions, a company's track record and the experience of management. The capital structure of the Company consists of convertible loans and shareholders' equity, which is comprised of share capital, reserves and deficit. The Board of Directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not exposed to any externally imposed capital requirements.

15. Income tax

The Company's provision for income taxes differs from amounts computed by applying the combined Canadian federal and provincial income tax rates, as a result of the following:

Year ended December 31,	**2018**	**2017**
Enacted rates	27.00%	26.00%
Income tax recovery (expense) computed at statutory rates	$ 12,262,843	$ 8,108,876
Permanent differences	(291,914)	(242,310)
Change in tax rates and other	(637,142)	1,162,882
Change in deferred assets not recognized	(11,333,787)	(9,029,448)
Recovery of (provision for) income taxes	$ -	$ -

The tax effects of temporary timing differences that give rise to significant components of the deferred tax assets and deferred tax liabilities are as follows:

Year ended December 31,	**2018**	**2017**
Deferred tax assets		
Financing costs	$ 6,464	$ 10,410
Non-capital loss carry forwards	5,103,907	4,516,838
Convertible loans	(817,085)	(179,944)
Tax value of long-term investment in excess of book value	19,271,366	7,883,576
Other	220,337	220,323
Total gross deferred tax assets	23,784,989	12,451,203
Deferred tax assets not recognized	(23,784,989)	(12,451,203)
Net deferred tax assets	$ -	$ -

(Expressed in Canadian Dollars)

15. Income tax – continued

At December 31, 2018, the Company has non-capital losses of approximately $18,903,359 which may be carried forward to apply against future year's income for Canadian income tax purposes, subject to final determination by taxation authorities, expiring as follows:

2026	$ 250,451
2027	1,447,618
2028	958,035
2029	1,987,052
2030	2,448,244
2031	804,696
2032	2,316,825
2033	2,422,371
2034	955,440
2035	1,298,808
2036	494,196
2037	1,345,295
2038	2,174,328
	$ 18,903,359

(Expressed in Canadian Dollars)

16. Restatement

During fiscal 2018, the Company identified certain errors in its consolidated financial statements for the year ended December 31, 2017. The errors relate to convertible loans as discussed below.

The Company had incorrectly been originally recording interest for its convertible loans issued on February 14, 2017 using a simple rate of interest rather than a compound rate of interest.

In connection with the foregoing, the Company determined that the February 14, 2017 exchange of existing short-term loans and accrued interest for secured convertible loans more appropriately represented a substantial modification of an existing financial liability required to be accounted for as an extinguishment, rather than a non-substantial modification as previously treated. As this transaction involves creditors that are also direct shareholders of the Company that are also acting in their capacity as such, the resulting impact is recognized in the consolidated statement of equity.

The consolidated financial statements have been restated for the adjustments discussed above, as at December 31, 2017 and for the year then ended as detailed in the following tables:

Consolidated statement of financial position

As at December 31, 2017	As Previously Reported $	Adjustments $	As Restated $
Assets			
Total assets	42,557,026	–	42,557,026
Liabilities and deficiency			
Accounts payable and accrued liabilities	142,370	–	142,370
Convertible loans	16,866,935	82,934	16,949,869
Total liabilities	17,009,305	82,934	17,092,239
Deficiency			
Share capital	49,791,768	–	49,791,768
Reserves	23,039,090	21,059	23,060,149
Deficit	(47,283,137)	(103,993)	(47,387,130)
Total deficiency	25,547,721	(82,934)	25,464,787
Total liabilities and deficiency	42,557,026	–	42,557,026

Consolidated statement of comprehensive loss

For the year ended December 31, 2017	As Previously Reported $	Adjustments $	As Restated $
Accretion expense	886,294	45,669	931,963
Interest expense	1,154,844	58,322	1,213,166
Other operating expenses	316,576	2	316,578
Net loss from operations	(2,357,714)	(103,993)	(2,461,707)
Other items	–	–	–
Net loss and comprehensive loss for the year	(31,083,992)	(103,993)	(31,187,985)
Loss per share – basic and diluted:	(0.04)	–	(0.04)

(Expressed in Canadian Dollars)

16. Restatement – continued

Consolidated statement of cash flows:

For the year ended December 31, 2017	As Previously Reported $	Adjustments $	As Restated $
Net loss for the year	(31,083,992)	(103,993)	(31,187,985)
Accretion expense	886,294	45,669	931,963
Accrued interest	1,154,844	58,322	1,213,166
Other items	28,907,800	–	28,907,800
Changes in non-cash working capital items	(33,268)	2	(33,266)
Net cash used in operating activities	(168,322)	–	(168,322)

The net increase of $21,059 in reserves is comprised of the following:

- an increase of $2,426,513 in the equity portion of convertible loans from $1,379,036 as previously reported to $3,805,549; and
- an increase of $2,405,454 in reserve on extinguishment of convertible loans from $Nil as previously reported to $2,405,454

The Company did not present an opening consolidated statement of financial position as at January 1, 2017 as the above-noted adjustments only impacted fiscal 2017 and had no impact on fiscal 2016.

17. Subsequent event

Subsequent to December 31, 2018, the Company entered into a loan agreement with Gulf LNG America, LLC for the amount of US$25,000. The loan is interest bearing at a rate of 13% per annum.