Range Energy Resources Inc.

Condensed Interim Consolidated Financial Statements

As at and for the six months ended June 30, 2019

Expressed in Canadian dollars

(Unaudited – Prepared by management)

RANGE ENERGY RESOURCES INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Range Energy Resources Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
Expressed in Canadian Dollars

	June 30, 2019	December 31, 2018
Current assets		
Cash	$ 1,673	$ 60,444
Loan receivable (note 5)	1	1
Prepaid expenses	18,253	43,521
	19,927	103,966
Non-current assets		
Equipment (note 6)	107	126
Long-term investment (note 7)	1	1
Total assets	**$ 20,035**	**$ 104,093**
Current liabilities		
Accounts payable and accrued liabilities (note 11)	$ 120,541	$ 130,569
Loan payable (note 9)	33,660	-
Convertible loans payable (note 10)	20,477,761	19,309,649
	20,631,962	19,440,218
Shareholders' Deficiency		
Share capital (note 8(a) and (b))	49,791,768	49,791,768
Reserves (note 8(c))	23,674,184	23,674,184
Deficit	(94,077,879)	(92,802,077)
	(20,611,927)	(19,336,125)
Total liabilities and shareholders' deficiency	**$ 20,035**	**$ 104,093**

Nature of operations and going concern (note 1)
Commitment (note 12)
Subsequent events (note 16)

Approved on Behalf of the Board of Directors:

(signed) Toufic Chahine

(signed) Allan Bezanson

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

Range Energy Resources Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
(Unaudited)
Expressed in Canadian Dollars

	Share capital		Reserves				
	Number of shares	Amount	Warrants	Contributed surplus	Equity component of convertible loans	Deficit	Total equity (deficiency)
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
Net loss for the period	-	-	-	-	-	(1,387,759)	(1,387,759)
Balance, June 30, 2018	856,225,977	$ 49,791,768	$ 9,032,924	$ 10,221,676	$ 3,805,549	$ (48,774,889)	$ 24,077,028
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)
Warrants expired (note 8(d))	-	-	(1,440,104)	1,440,104	-	-	-
Net loss for the period	-	-	-	-	-	(1,275,802)	(1,275,802)
Balance, June 30, 2019	856,225,977	$ 49,791,768	$ 3,938,971	$ 15,929,664	$ 3,805,549	$ (94,077,879)	$ (20,611,927)

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

Range Energy Resources Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited)
Expressed in Canadian Dollars

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Expenses				
Audit and accounting fees (note 11)	$ 25,675	$ 19,905	$ 41,425	$ 19,905
Consulting	-	11,204	-	22,838
Depreciation (note 6)	10	13	19	27
General and administrative (note 11)	17,292	19,747	33,665	38,025
Interest (notes 9 and 10)	603,211	905,676	1,169,075	1,257,539
Legal fees	-	616	892	1,149
Management fees (note 11)	11,130	21,525	22,155	49,224
Transfer agent and filing fees	7,065	7,089	10,211	10,435
Loss before other item	(664,383)	(985,775)	(1,277,442)	(1,399,142)
Foreign exchange gain	1,911	6,400	1,640	11,383
Net loss and comprehensive loss for period	$ (662,472)	$ (979,375)	$ (1,275,802)	$ (1,387,759)
Loss per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	856,225,977	856,225,977	856,225,977	856,225,977

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

Range Energy Resources Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Expressed in Canadian Dollars

	For the six months ended June 30,	
	2019	**2018**
Operating activities		
Net loss for the period	$ (1,275,802)	$ (1,387,759)
Depreciation	19	27
Accrued interest	1,169,075	1,257,539
Foreign exchange	(602)	-
	(107,310)	(130,193)
Changes in non-cash working capital items:		
Prepaid expenses	25,268	23,963
Accounts payable and accrued liabilities	(10,028)	(34,302)
Cash used in operating activities	(92,070)	(140,532)
Financing activities		
Proceeds from loan payable	33,299	-
Cash provided by financing activities	33,299	-
Decrease in cash	(58,771)	(140,532)
Cash - beginning of period	60,444	337,909
Cash - end of period	$ 1,673	$ 197,377

The accompanying notes are an integral part of these condensed interim 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 June 30, 2019, 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 six months ended June 30, 2019, the Company incurred a net loss totalling $1,275,802. As at June 30, 2019, the Company has a working capital deficiency of $20,612,035 (December 31, 2018 - $19,336,252) and an accumulated deficit of $94,077,879. 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 June 30, 2019, 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. Basis of preparation

(a) Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Financial Standard 34, Interim Financial Reporting, of the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC"). Accordingly, these condensed interim consolidated financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting process.

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company's audited financial statements for the year ended December 31, 2018. The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of the date the Board of Directors approved the financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018.

These consolidated financial statements have been authorized for release by the Company's Board of Directors on August 26, 2019.

2. Basis of preparation - continued

(b) Basis of measurement

The condensed interim 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.

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

(c) Basis of consolidation

These condensed interim 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 six months ended June 30, 2019 and 2018.

3. Significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed interim consolidated financial statements are summarized in the Company's annual audited consolidated financial statements for the year ended December 31, 2018.

(a) Accounting standards adopted during the period

The Company has adopted the following new standards, along with any consequential amendments effective January 1, 2019.

- 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. There was no significant impact on the Company's consolidated financial statements from the adoption of IFRS 16.

4. Significant accounting estimates and judgments

The preparation of the condensed interim 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.

4. Significant accounting estimates and judgments – continued

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.

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.

(Expressed in Canadian Dollars)

4. Significant accounting estimates and judgments – continued

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.

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 June 30, 2019, 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, 2017	$ 4,639	$ (4,459)	$ 180
Depreciation	-	(54)	(54)
Balance – December 31, 2018	$ 4,639	$ (4,513)	$ 126
Depreciation	-	(19)	(19)
Balance – June 30, 2019	$ 4,639	$ (4,532)	$ 107

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 six months ended June 30, 2019, the Company funded cash calls made by NAAZ2 totalling $Nil (US $Nil) (2018 - $Nil (US $Nil)). 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 June 30, 2019 and 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. During the six months ended June 30, 2019, 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 six months ended June 30, 2019 and year ended December 31, 2018.

(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

	June 30, 2019		**December 31, 2018**	
	Number of warrants	**Amount**	**Number of warrants**	**Amount**
Opening balance	401,048,137	$ 5,379,075	523,048,137	$ 9,032,924
Warrants expired	(54,791,726)	(1,440,104)	(122,000,000)	(3,653,849)
Closing balance	346,256,411	$ 3,938,971	401,048,137	$ 5,379,075

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.

During the six months ended June 30, 2019, 54,791,726 warrants expired and $1,440,104 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 June 30, 2019, warrants outstanding are as follows:

Number of warrants outstanding and exercisable	Exercise price	Fair value of warrants	Expiry dates
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
346,256,411		$ 3,938,971	

As at June 30, 2019, the weighted average exercise price of warrants exercisable was $0.05 and the weighted average remaining contractual life was 1.29 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 six months ended June 30, 2019 and year ended December 31, 2018:

	June 30, 2019		**December 31, 2018**	
	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	10,250,000	$0.10
Options expired	-	-	-	-
Closing balance	10,250,000	$0.10	10,250,000	$0.10

At June 30, 2019, 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. Loan payable

On April 11, 2019, the Company entered into a loan agreement with Gulf LNG America, LLC in the amount of US$25,000. The loan is interest bearing at a rate of 13% per annum and matures on January 13, 2020.

Balance, December 31, 2017 and 2018	$	-
Loan payable issued		33,299
Interest		963
Foreign exchange		(602)
Balance, June 30, 2019	**$**	**33,660**

10. Convertible loans payable

(a) 2706791 Ontario Inc.

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.

10. Convertible loans payable – continued

(a) 2706791 Ontario Inc. (continued)

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. The promissory note evidencing this loan matures on February 14, 2018, accrues interests compounded monthly at the rate of 10% per annum, 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.

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, 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, 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, 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, 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.

10. Convertible loans payable – continued

(a) 2706791 Ontario Inc. (continued)

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, 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, 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 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, 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, 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.

On July 31, 2019, 2706791 Ontario Inc., a company controlled by a director of the Company, entered into a Share and Loan Purchase agreement with Gulf whereby 2706791 Ontario Inc. acquired from Gulf certain secured convertible promissory notes in the aggregate principal amount of $15,982,472 (Notes 11 and 16).

(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.

(Expressed in Canadian Dollars)

10. Convertible loans payable – continued

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

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. The promissory note evidencing this loan matures on February 14, 2018, accrues interests compounded monthly at the rate of 10% per annum, 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, 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.

(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 $20,477,761 at June 30, 2019 (December 31, 2018 - $19,309,649) with $3,805,549 recognized as equity component (December 31, 2018 - $3,805,549). During the six months ended June 30, 2019, the Company accrued interest and accretion expense of $1,168,112 (2018 - $1,257,539) 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 six months ended June 30, 2019 and year ended December 31, 2018:

		Liability Component		Equity Component
Balance, December 31, 2017	$	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**
Interest		1,168,112		-
Balance, June 30, 2019	**$**	**20,477,761**	**$**	**3,805,549**

(Expressed in Canadian Dollars)

10. Convertible loans payable – continued

(d) The Company determined that the extension of maturity dates relating to convertible loans described in Notes 10(a) and 10(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.

11. 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 12).

Details of key management personnel compensation are as follows:

Six months ended June 30,		**2019**		**2018**
Services provided:				
Accounting fees	$	31,500	$	5,250
Management fees		22,155		49,224
Rent and storage		6,300		6,300
Key management personnel compensation	$	59,955	$	60,774

As at		**June 30, 2019**		**December 31, 2018**
Balances payable to key management personnel	$	118,025	$	109,887

** 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 owing to him during the year ended December 31, 2018.

On July 31, 2019, 2706791 Ontario Inc., a company controlled by a director of the Company, entered into a Share and Loan Purchase agreement with Gulf whereby 2706791 Ontario Inc. acquired from Gulf certain secured convertible promissory notes in the aggregate principal amount of $15,982,472 (Notes 10 and 16).

12. 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 11). The future minimum payments are $57,000 for the remainder of the year ending December 31, 2019.

(Expressed in Canadian Dollars)

13. 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:

	June 30, 2019			December 31, 2018		
	Canada	Channel Islands	Total	Canada	Channel Islands	Total
Equipment	$ 107	$ -	$ 107	$ 126	$ -	$ 126
Long-term investment	-	1	1	-	1	1
	$ 107	$ 1	$ 108	$ 126	$ 1	$ 127

14. Financial instruments

The Company's financial instruments include cash, loan receivable, long-term investment, accounts payable, loan payable and convertible loans. The carrying value of cash, amounts receivable, accounts payable, loan 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
Loan payable	Amortized cost	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:

	Six months ended June 30, 2019	**Year ended December 31, 2018**
Beginning balance	$ 1	$ 42,177,000
Impairment	-	(42,176,999)
Ending balance	$ 1	$ 1

(Expressed in Canadian Dollars)

14. Financial instruments – continued

See the Company's consolidated statement of financial position for financial instrument balances as at June 30, 2019 and December 31, 2018.

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 June 30, 2019, 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 June 30, 2019, the Company has a working capital deficiency of $20,612,035 (December 31, 2018 - $19,336,252). 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 June 30, 2019 are as follows:

	Carrying value $	Less than 1 year $	Between 2 – 5 years $	More than 5 years $	Total
Accounts payable	120,541	120,541	-	-	120,541
Loan payable	33,660	33,660	-	-	33,660
Convertible loans payable	20,477,761	20,477,761	-	-	20,477,761

(d) Interest rate risk

As at June 30, 2019, the Company does not hold any variable rate term deposits. The Company is not subject to any significant interest rate risk.

14. Financial instruments – continued

(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) and repay its loan payable in United States dollars. 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 June 30, 2019, 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.

15. 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.

16. Subsequent events

On July 31, 2019, 326,256,411 warrants at an exercise price of $0.05 were cancelled pursuant to the Share and Loan Purchase agreement between Gulf and 2706791 Ontario Inc. In addition, 2706791 Ontario Inc. acquired from Gulf certain outstanding secured convertible loans in the aggregate principal amount of $15,982,472 (Notes 10 and 11).

On August 1, 2019, the Company entered into a loan agreement with 2706791 Ontario Inc. in the principal amount of up to $50,000. The loan is interest bearing at a rate of 6% per annum calculated monthly and matures in two years time.

Subsequent to June 30, 2019, 20,000,000 warrants at an exercise price of $0.055 expired unexercised.

Subsequent to June 30, 2019, 6,000,000 options at an exercise price of $0.10 were cancelled.