Paleo Resources, Inc.

Consolidated Financial Statements

December 31, 2019 and 2018

(Expressed in US Dollars)

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Paleo Resources, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Paleo Resources, Inc. (formerly Tanager Energy Inc.) and its subsidiaries (collectively, the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MaloneBailey, LLP
www.malonebailey.com
We have served as the Company's auditor since 2019.
Houston, Texas
May 29, 2020

Paleo Resources, Inc.
Consolidated Balance Sheets
(Expressed in US Dollars)
As at

	December 31, 2019 $	December 31, 2018 $
ASSETS		
Current assets		
Cash and cash equivalents	**235,263**	40,786
Accounts receivable	**33,162**	48,827
Prepaid expenses and deposits	**73,282**	37,346
	341,707	126,959
Deposit (Note 4)	**240,729**	224,654
Oil and gas properties, successful efforts method (Note 5)		
Proved properties, net	**1,325,860**	993,276
Unproved properties	**8,620,615**	8,780,218
TOTAL ASSETS	**10,528,911**	10,125,107
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)		
Related parties	**986,123**	**511,982**
Third parties	**749,804**	**807,570**
Loans payable (Note 7)		
Related parties	**2,993,591**	**2,415,591**
Third parties	**300,000**	**400,000**
Current portion of long-term debt (Note 9)	**-**	**3,975,000**
	5,029,518	**8,110,143**
Convertible debentures (Note 8)		
Related parties	**470,463**	**-**
Third parties	**1,562,137**	**-**
Asset retirement obligations (Note 10)	**316,595**	**204,767**
TOTAL LIABILITIES	**7,378,713**	**8,314,910**
SHAREHOLDERS' EQUITY		
Class A common shares, no par, unlimited shares authorized and 235,286,816 shares issued and outstanding at December 31, 2019 and 2018 (Note 11)	**31,729,775**	**31,729,775**
Additional paid in capital	**3,161,109**	**3,155,152**
Accumulated other comprehensive loss	**(747,330)**	**(601,813)**
Accumulated deficit	**(30,993,356)**	**(32,472,917)**
Total shareholders' equity	**3,150,198**	**1,810,197**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,528,911**	**10,125,107**

Approved on behalf of the Board

(signed) "Tom M. Crain, Jr." — President and Director

(signed) "Chris Pettit" — Director

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

Paleo Resources, Inc.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in US Dollars)
For the years ended December 31, 2019 and 2018

	2019 $	2018 $
Revenue		
Oil and gas sales, net of royalties	**261,654**	586,182
Operating costs and expenses		
Lease operating expenses	**254,198**	247,657
Production taxes	**4,367**	53,419
General and administrative expenses		
Share-based compensation expenses	**5,957**	35,702
Other general and administrative expenses	**815,359**	1,382,599
Depletion, depreciation and accretion (Note 5 and 10)	**595,088**	1,546,772
Impairment (Note 5)	**112,917**	138,742
Mining royalty and staking	**72,498**	30,870
Total operating costs and expenses	**1,860,384**	3,435,761
Loss from operations	**(1,598,730)**	(2,849,579)
Other income and (expense)		
Interest expense (Note 14)	**(367,149)**	(550,358)
Unrealized gain on embedded derivatives (Note 8)	**-**	631,560
Foreign exchange gain (loss)	**78,728**	(364,630)
Gain on forgiveness of debt (Note 9 and 16)	**3,353,990**	74,683
Gain on disposition of unproved properties	**12,722**	-
Other income and (expense), net	**3,078,291**	(208,745)
Net income (loss) attributable to shareholders	**1,479,561**	(3,058,324)
Comprehensive income (loss)		
Foreign currency translation	**(145,517)**	413,861
Comprehensive income (loss) attributable to shareholders	**1,334,044**	(2,644,643)
Basic and diluted net income (loss) per share (Note 15)	**0.01**	(0.01)
Weighted average number of common shares outstanding	**235,286,816**	209,565,251

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

(Expressed in US Dollars)

	Number of Shares #	Common Stock $	Additional Paid In Capital $	Accumulated Other Comprehensive Income (Loss) $	Deficit $	Total Shareholders' Equity (Deficit) $
Balance, December 31, 2017	124,835,388	22,024,994	3,119,450	(1,015,494)	(29,414,593)	(5,285,643)
Conversion of convertible debentures	110,451,428	9,704,781	-	-	-	9,704,781
Foreign currency translation gain	-	-	-	413,681	-	413,681
Share-based compensation	-	-	35,702	-	-	35,702
Net loss for the year	-	-	-	-	(3,058,324)	(3,058,324)
Balance, December 31, 2018	**235,286,816**	**31,729,775**	**3,155,152**	**(601,813)**	**(32,472,917)**	**1,810,197**
Foreign currency translation loss	-	-	-	(145,517)	-	(145,517)
Share-based compensation	-	-	5,957	-	-	5,957
Net income for the year	-	-	-	-	1,479,561	1,479,561
Balance, December 31, 2019	**235,286,816**	**31,729,775**	**3,161,109**	**(747,330)**	**(30,993,356)**	**3,150,198**

Paleo Resources, Inc.
Consolidated Statements of Cash Flows
(Expressed in US Dollars)
For the years ended December 31, 2019 and 2018

	2019 **$**	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	**1,479,561**	(3,058,324)
Adjustments:		
Depletion, depreciation and accretion	**595,088**	1,546,772
Impairment	**112,917**	138,742
Debt discount amortization (Note 8)	**12,435**	171,563
Share-based compensation	**5,957**	35,702
Unrealized foreign exchange	**(209,191)**	364,630
Gain on unrealized embedded derivative	**-**	(631,560)
Gain on forgiveness of debt (Note 9)	**(3,110,629)**	(74,683)
Gain on disposition of assets	**(12,722)**	-
Changes in assets and liabilities		
Accounts receivable	**28,031**	47,011
Prepaid expenses and deposits	**(35,936)**	(37,346)
Accounts payable and accrued liabilities	**182,077**	474,450
Net cash used in operating activities	**(952,412)**	(1,023,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	**(4,763)**	(3,540)
Additions to unproved oil and gas properties	**(60,581)**	(39,701)
Additions to proved oil and gas properties	**(181,170)**	(123,420)
Proceeds on disposition of unproved properties	**25,000**	-
Cash received from related party for the Joffre acquisition	**-**	228,953
Cash payment for Joffre acquisition on behalf of related party	**-**	(228,953)
Net cash used in investing activities	**(221,514)**	(166,661)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible debentures, net of issue costs	**1,473,813**	-
Proceeds from related party loans payable	**1,343,000**	670,000
Proceeds from third party loans payable	**-**	400,000
Repayment of related party loans payable	**(283,000)**	-
Repayment of third party loans payable	**(100,000)**	-
Repayment of long-term debt	**(1,200,000)**	-
Net cash provided by financing activities	**1,233,813**	1,070,000
Effect of changes in foreign exchange rates on cash held in foreign currencies	**134,590**	22,175
Net increase (decrease) in cash and cash equivalents for the year	**194,477**	(97,529)
Cash and cash equivalents, beginning of the year	**40,786**	138,315
Cash and cash equivalents, end of the year	**235,263**	40,786

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

(Expressed in US Dollars)

	2019 **$**	2018 $
Supplemental cash flow disclosures		
Interest paid	**88,070**	**-**
Income taxes paid	**-**	**-**
Non-cash transactions		
Asset retirement obligation asset revision	**(88,581)**	(58,994)
Non-cash investing activities		
Change in unproved properties in accounts payable	**(95,459)**	185,395
Change in proved properties in accounts receivable and accounts payable	**631,536**	22,465
Non-cash financing activities		
Convertible debentures issued in settlement of related party loan (Note 7 and 8)	**482,000**	-
Common stock issued for conversion of convertible debentures (Note 8 and 11)	**-**	9,704,781

1. Description of business and going concern

Description of business

Tanager Energy Inc. ("Tanager") was incorporated in 1945 and in fiscal 2013, the name of the Company was changed to "Tanager Energy Inc." In addition, on June 20, 2016 Tanager incorporated Tanager Energy (USA) Inc., a wholly owned subsidiary. On August 6, 2018, Tanager incorporated Tanager Chalk, Inc., a wholly owned subsidiary of Tanager Energy (USA) Inc.

On March 6, 2019, Tanager continued from the Province of Alberta to the Province of British Columbia pursuant to a resolution passed by shareholders of Tanager at the annual general and special meeting held on December 19, 2018. On April 11, 2019, the Company amended its articles of incorporation to change its name from Tanager Energy Inc. to Paleo Resources, Inc. (“Paleo Resources” or the “Company”). In addition, the Company’s subsidiary, Tanager Energy (USA) Inc. changed its name to Paleo Resources (USA), Inc.

Paleo Resources is an exploration company, engaged in the acquisition, exploration and development of oil and gas in Alberta, Canada and Texas, USA and precious and base metal properties in Ontario, Canada. The Company's common shares are listed on the TSX Venture Exchange under the symbol PRE and on the OTCQB Venture Market in the U.S. as PRIEF. The primary office is located at 144 4th Avenue SW, Suite 1600, Calgary, AB T2P 3N4 and executive offices are located at 1980 Post Oak Blvd., Suite 1500, Houston, Texas 77056.

Going concern

These consolidated financial statements, including comparatives, have been prepared in accordance with generally accepted accounting principles of the United States of America (“US GAAP”) applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from December 31, 2019. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at December 31, 2019, the Company had a working capital deficiency of $4,687,811 (2018 - $7,983,184) and an accumulated deficit of $30,993,356 (2018 - $32,472,917). The Company will need additional funding in order to continue operations. While the Company has been successful in obtaining funding in the past, principally through the issuance of equity and debentures and non-arm’s length loans, there is no assurance that such funding will be available in the future. An inability to raise additional funds would adversely impact the future assessment of the Company as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern.

The Company is dependent upon its ability to finance its operations and oil and gas drilling programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration and evaluation assets and plant property and equipment, and, ultimately, the Company’s ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the exploration and development of the properties, and upon future profitable production or, alternatively, upon the Company’s ability to dispose of its interests in one or more assets on an advantageous basis, all of which are uncertain. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statements of financial position classifications that would be necessary if the going concern assumption was inappropriate.

2. Basis of presentation

Under the U.S. Securities Exchange Act of 1934, a foreign private issuer ("FPI") is an entity incorporated or organized under the laws of a jurisdiction outside of the US, unless:

- more than 50% of its outstanding voting securities are directly or indirectly owned of record by US residents; and
- any of the following applies: (i) the majority of its executive officers or directors are U.S. citizens or residents; (ii) more than 50% of its assets are located in the United States; or (iii) its business is administered principally in the United States.

A company's ongoing FPI status is tested annually at the end of the most recently completed second fiscal quarter. If an issuer fails to qualify as an FPI at the end of its second fiscal quarter, it remains eligible to use the forms and rules applicable to FPIs until the end of that financial year.

As of June 30, 2018, the Company determined that it no longer qualifies as an FPI. Therefore, the Company must transition to U.S. domestic company reporting status and become subject to SEC reporting requirements applicable to a U.S. domestic company, beginning in 2019. These reporting requirements require that the Company's 2019 financial statements and selected financial data be recast into US GAAP and US dollar reporting currency for all periods presented, which will include the 2018 annual filings. In addition, the Company will be required to file annual, quarterly and current report filing with the SEC, comply with US insider filing requirements under the Exchange Act, and follow Regulation FD for "fair disclosure" of materially non-public information through public disclosure that is broadly available to all members of the public at the same time.

Previously the Company's consolidated financial statements to December 31, 2018 were presented in accordance with International Financial Reporting Standards ("IFRS") and stated in Canadian Dollars. Accordingly, the Company has now recast its consolidated financial statements in accordance with US GAAP and in US Dollars for prior periods as presented in order to comply with these SEC reporting requirements.

These consolidated financial statements have been prepared in accordance with US GAAP in effect as at the balance sheet date. These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments and share-based payment transactions that have been measured at fair value. They were prepared on a going concern basis and are presented in a reporting currency of US dollars ("USD"). The functional currency of the parent entity is Canadian Dollars ("CDN") and the functional currency of the US subsidiary is USD.

3. Significant accounting policies

(a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Paleo Resources (USA), Inc. The Company incorporated two wholly owned entities, Tanager Energy GP, LLC and Tanager Energy, LP on December 31, 2017 and Tanager Chalk, Inc. on August 6, 2018 and these entities are inactive to date.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

3. Significant accounting policies *(continued)*

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

(b) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to the use of the going concern assumption, proved natural gas reserves and related cash flow estimates used in impairment tests of oil and natural gas properties, asset retirement obligations, and accrued natural gas revenues and operating expenses. Estimates are also made in determining the fair value of assets and liabilities including the valuation of the Company's embedded derivative liability component related to convertible debentures. Actual results could differ from those estimates.

(c) Cash and cash equivalents

Cash and cash equivalents include highly liquid instruments with an original maturity of three months or less are stated at cost, which approximates fair value.

(d) Accounts receivable and allowance for doubtful accounts

Accounts receivable are primarily consisting of sales tax receivable from government authorities in Canada and trade and accrued accounts receivables from industry partners. There are no past due receivables from industry partners that are considered impaired. We review all outstanding accounts receivable balances and record a reserve for amounts that we expect will not be fully recovered. Actual balances are not applied against the reserves until substantially all collection efforts have been exhausted. Our allowance for doubtful accounts was nil as of December 31, 2019 (2018 - $nil). There was no bad debt expense recognized for the years ended December 31, 2019 and 2018.

(e) Oil and natural gas properties

The Company accounts for its crude oil and natural gas exploration and production activities under the successful efforts method of accounting.

Oil and natural gas lease acquisition costs are capitalized when incurred. Unproved properties with acquisition costs that are not individually significant are aggregated. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and natural gas properties. Lease delay rentals are expensed as incurred.

Oil and natural gas exploration costs, other than the costs of drilling exploratory wells, are expensed as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether the Company has discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. In some circumstances, it may be uncertain whether proved commercial reserves have been discovered when drilling has been completed. Such exploratory well drilling costs may continue to be capitalized if the reserve quantity is sufficient to justify its completion as a producing well and sufficient progress in assessing the reserves and the economic and operating viability of the project is being made. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized.

3. Significant accounting policies *(continued)*

Depletion of the cost of proved oil and natural gas properties is calculated using the unit-of-production method. The reserve base used to calculate depletion for leasehold acquisition costs and the cost to acquire proved properties is proved reserves. With respect to lease and well equipment costs, which include development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves.

When circumstances indicate that proved oil and natural gas properties may be impaired, the Company compares expected undiscounted future cash flows at a depreciation, depletion and amortization group level to the unamortized capitalized cost of the asset. If the expected undiscounted future cash flows, based on the Company's estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally calculated using the Income Approach described in the Fair Value Measurement Topic of the ASC, which considers estimated discounted future cash flows.

Furniture and fixtures are depreciated on a straight-line basis over periods ranging from two to five years.

(f) Financial instruments and fair value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, loans payable, convertible debentures, and long-term debt. Our financial instruments that are accounted for at fair value measurement consist of the embedded derivative component related to convertible debentures. The Corporation classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

Level 3—Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. The Corporation makes its own assumptions about how market participants would price the assets and liabilities.

Cash, cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities are carried at cost, which approximates their fair value because of the short-term maturity of these instruments.

(g) Revenue recognition

The Company adopted Accounting Standards Codification ("ASC") topic 606 on January 1, 2018. The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in GAAP when it became effective and was incorporated into GAAP as Accounting Standards Codification ("ASC") Topic 606. Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied. The Company applied the guidance to the contracts in effect at January 1, 2018 and used the modified retrospective transition method. There was no material impact to our net income related to the adoption of this standard. Based on ASC 606, the Company adheres to the following revenue recognition policies and procedures.

3. Significant accounting policies *(continued)*

Revenue from the sale of crude oil, natural gas, and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers, excludes amounts collected on behalf of third parties and is presented net of royalties paid and accrued. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Gathering fees charged to other entities for use of facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Gathering fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

(h) Joint operations

The Company conducts its exploration and development activities independently, as well as jointly with others through joint operations. All of the Company's current interests in joint arrangements are classified as joint operations. To account for these arrangements, the Company recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such joint operations.

(i) Asset retirement obligations

The Company records a liability for asset retirement obligations at fair value in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method of the asset's useful life. Recognized asset retirement obligation relates to the plugging and abandonment of oil and natural gas wells. Management periodically reviews the estimates of the timing of well abandonments as well as the estimated plugging and abandonment costs, which are discounted at the credit adjusted risk free rate. These adjustments are recorded to the asset retirement obligation with an offsetting change to property and equipment. An ongoing accretion expense is recognized for changes in the value of the liability as a result of the passage of time, which is recorded in depreciation, depletion, amortization, and accretion expense in the consolidated statements of loss and comprehensive loss.

(j) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3. Significant accounting policies *(continued)*

(k) Concentrations of credit risk

Concentrations of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Exposure is controlled to credit risk associated with these instruments by (i) placing assets and other financial interests with credit-worthy financial institutions, (ii) maintaining policies over credit extension that include the evaluation of customers' financial condition and monitoring paying history, although the Company does not have collateral requirements and (iii) netting derivative assets and liabilities for counterparties with a legal right of offset. At December 31, 2019 and 2018, the cash and cash equivalents were primarily concentrated in two financial institutions, one in Canada and one in the US. The Company periodically assesses the financial condition of these institutions and believe that any possible credit risk is minimal.

(l) Share-based compensation transactions

The fair value of equity-settled share options granted is recognized as an expense over the vesting period with a corresponding increase in equity.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Management is required to estimate forfeitures and revise its estimates of the number of equity-settled share options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period. Management defines forfeitures as share-based payments for which the counterparty does not fulfill the vesting conditions.

(m) Taxes

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

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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 tax rates enacted or substantively enacted at the financial position reporting date.

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 reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(n) Earnings (loss) per share

Basic earnings or loss per share is calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding for the period. Diluted earnings or loss per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options, warrants, convertible debentures and other dilutive instruments granted to employees. In the calculation of diluted per share amounts, outstanding dilutive instruments are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. The number of additional shares related to convertible debentures is calculated assuming the debentures are converted into common shares by dividing the face value of convertible debentures by the conversion price. Earnings is adjusted for interest or accretion, net of tax, related to the convertible debentures. In loss per share situations, the diluted per share amount is the same as that for basic, as all factors are anti-dilutive.

3. Significant accounting policies *(continued)*

(o) Foreign currency translation

The financial statements are presented in a reporting currency of US dollars ("USD"). The functional currency of the parent entity is Canadian Dollars ("CDN") and the functional currency of the US subsidiaries is USD. Any gains or losses on transactions or monetary assets or liabilities in currencies other than the reporting currency are included in net income in the current period. Gains and losses on translation of balances denominated in Canadian dollars are included in accumulated other comprehensive income.

(p) Recently issued accounting standards

The Corporation, an emerging growth company ("EGC"), has elected to take advantage of the benefits of the extended transition period provided for in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards which allows the Corporation to defer adoption of certain accounting standards until those standards would otherwise apply to private companies.

In August 2018, the FASB issued ASU 2018-13, ''Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement,'' the purpose of which is to improve the effectiveness of fair value measurement disclosures. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, which the FASB finalized on August 28, 2018. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company is currently assessing the impact of the new standards on these consolidated financial statements.

In February 2016, the FASB issued ASU 2016 02, "Leases (Topic 842)" (ASU 2016-02), which significantly changes accounting for leases by requiring that lessees recognize a right of use asset and a related lease liability representing the obligation to make lease payments, for all lease transactions with terms greater than one year. Additional disclosures about an entity's lease transactions will also be required. ASU 2016-02 defines a lease as "a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration." ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. The Company elects to defer adoption of this ASU until January 1, 2020 as allowed for an emerging growth company. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented in the financial statements using a modified retrospective approach. The Company does not anticipate this to impact our consolidated financial statements at this time.

4. Deposit

The deposit of $240,729 (2018 - $224,654) relates to payments to the Alberta Energy Regulator ("AER") held in trust as security deposits in connection with AER estimated net future abandonment liabilities for operated Alberta well licenses. The deposit bears interest at bank prime minus 1.95%.

(Expressed in US Dollars unless otherwise stated)

5. Oil and gas properties, successful efforts method

Oil and gas properties	2019 $	2018 $
Proved properties	6,318,074	5,388,095
Accumulated depletion and depreciation and impairment	(4,992,214)	(4,394,819)
Proved properties, net	1,325,860	993,276
Unproved properties	8,620,615	8,780,218
Total oil and gas properties, net	9,946,475	9,773,494

The movement in the Company's proved oil and gas properties is as follows:

Proved properties	2019 $	2018 $
Cost		
Balance, beginning of year	5,388,095	5,317,767
Additions	812,706	145,885
Transfer from unproved properties	-	19,135
Asset retirement obligation adjustments	88,111	(60,580)
Gain (loss) on foreign exchange translation	29,162	(34,112)
Balance, end of year	6,318,074	5,388,095
Accumulated depletion, depreciation and impairment		
Balance, beginning of year	4,394,819	2,892,028
Depletion and depreciation	579,369	1,529,263
Gain (loss) on foreign exchange translation	18,026	(26,472)
Balance, end of year	4,992,214	4,394,819
Net book value	1,325,860	993,276

The movement in the Company's unproved oil and gas properties is as follows:

Unproved properties	2019 $	2018 $
Balance, beginning of year	**8,780,218**	**8,713,087**
Additions	**116,191**	**225,096**
Properties adjustment (1)	**(151,069)**	**-**
Disposition	**(12,278)**	**-**
Impairment	**(112,917)**	**(138,742)**
Transfer to proved properties	**-**	**(19,135)**
Asset retirement obligation adjustment (Note 10)	**470**	**1,586**
Gain (loss) on foreign exchange translation	**-**	**(1,674)**
Balance, end of year	**8,620,615**	**8,780,218**

(1) A credit note of $151,069 was provided by the Company's related party US JV Partner as of December 31, 2019. The adjustment provided for a credit of certain 2016 invoiced costs for the Polk County, Texas asset purchase that were overcharged to the Company.

5. Oil and gas properties, successful efforts method (continued)

Property Impairment

The Company periodically reviews oil and natural gas properties for impairment when facts and circumstances indicate that their carrying value may not be recoverable.

Proved Properties

In order to determine whether the carrying value of an asset is recoverable, the Company compares net capitalized costs of proved oil and natural gas properties to estimated undiscounted future net cash flows using management's expectations of future oil and natural gas prices. These future price scenarios reflect the Company's estimation of future price volatility. If the net capitalized cost exceeds the undiscounted future net cash flows, the Company writes the net cost basis down to the discounted future net cash flows, which is management's estimate of fair value. Significant inputs used to determine the fair value include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices; and (iv) a market-based weighted average cost of capital rate. The underlying commodity prices embedded in the Company's estimated cash flows are the product of a process that begins with NYMEX forward curve pricing, adjusted for estimated location and quality differentials, as well as other factors that the Company's management believes will impact realizable prices.

The Company conducted an impairment test of the carrying value on December 31, 2019 and 2018 and concluded there was no impairment.

Unproved Properties

In order to determine whether the carrying value of its unproved properties are recoverable, the Company evaluates whether sufficient progress has been made on assessing the reserves and the economic and operating viability of each project. Such progress is assessed based upon various facts and circumstances and indicators including: (i) review of lease term expiries and expectations whether the leases are expected to be renewed or drilled upon in the future; (ii) occurrence of dry holes being drilled on the project; (iii) commitment of company project personnel at appropriate levels and skills for the project; (iv) costs that are being incurred to assess the reserves and their potential development; (v) assessment of the economic, legal, political, and environmental aspects of the development in progress; (vi) existence (or active negotiations) of sales contracts with customers for the oil and gas, as well as agreements with joint venture partners; (vii) existence of firm plans, established timetables, or contractual commitments for the development; (viii) progress being made on contractual arrangements that will permit future development; (ix) identification of existing transportation and other infrastructure that is or will be available for the project; and (x) identification of sources of capital to fund the project.

The Company has reviewed for indicators of impairment of its unproved properties as of December 31, 2019 and 2018. At December 31, 2019 and 2018, for its Yegua formation assets in the US, the Company determined that there were indicators of impairment and tested the unproved properties for impairment. The indicators observed include that certain individual Yegua formation area leases with undeveloped acreage that have expired or are not expected to be renewed or drilled upon in the future. As at December 31, 2019, the Company has measured an impairment of $21,430 (2018 - $138,742) based upon the carrying value of those individual area leases. In the fourth quarter of 2019, the Company's Dorn Prospect well in the Yegua formation was drilled and testing operations were concluded. The Dorn Prospect well produced non-commercial quantities of gas and water from multiple prospective sandstone sections, and the Company has decided to plug and abandon the well as a dry hole. Impairment expense for the year ended December 31, 2019 also includes $91,487 of costs from the Dorn Prospect well.

(Expressed in US Dollars unless otherwise stated)

6. Accounts payable and accrued liabilities

	2019	2018
	$	$
Accounts payable to related parties	**986,123**	511,982
Accounts payable and accrued liabilities to third parties	**749,804**	807,570
	1,735,927	1,319,552

As at December 31, 2019, the accounts payable to related parties includes interest accrued of $229,254 (2018 - $225,033) on convertible debentures held by a director of the Company and a trust (the "Trust"), interest accrued of $227,142 (2018 - $38,064) due on loans payable to a joint venture partner and its subsidiary (Note 7), $529,727 (2018 - $248,885) due to a joint venture partner (Note 16) for JV accounts payable and cash calls payable. The holders of the $6,000,000 June 2016 debentures had agreed to delay the monthly interest payments since October 2017. The May 2016 and June 2016 convertible debentures were converted into common shares of the Company on November 3, 2017 and March 27, 2018, respectively.

7. Loans payable

	2019	2018
	$	$
Promissory note from US JV Partner	**1,462,591**	1,745,591
Loan from subsidiary of US JV Partner	**1,531,000**	670,000
Loans payable from related parties	**2,993,591**	2,415,591
Loan from third-party lender	**300,000**	400,000
	3,293,591	2,815,591

In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of $1,745,591 into a promissory note. In June 2019, the Company repaid $283,000 of this promissory note. In September 2018, the Company also entered into a loan from a wholly owned subsidiary of the US JV Partner for a total available amount of $1,250,000. Effective March 31, 2019, the total available amount of the loan was amended to $2,100,000. On July 25, 2019, the Company settled a portion of the debt owed to the subsidiary of the US JV partner.

Pursuant to the debt settlement, the Company issued debentures in the aggregate principal amount of CDN$646,555 ($482,000 at an assumed exchange rate of CDN$0.7455 to US$1.00) to shareholders of the US JV partner. As of December 31, 2019, a total of $1,531,000 was drawn under this loan. Each of these loans are guaranteed by the Company, shall be repaid on demand, provided that if no demand is made, the loans are due on September 1, 2020. These loans bear interest at a rate of 0.5% above the Wall Street Journal prime rate and are secured against all of the Company's US subsidiary oil and gas properties in Texas.

The loan from the third-party joint venture partner was non-interest bearing, unsecured and due on demand. In connection with an agreement that closed October 1, 2018, the Company and the third-party joint venture partner agreed that all net balances owing to or from each other would be forgiven (Note 16).

The loan from a third-party lender is unsecured and bears interest at 6% per annum. This loan matured and was originally due and payable, along with accrued interest, on June 26, 2018. During the third quarter of 2019, the Company made total principal payments of $100,000.

On November 15, 2019, the Company entered into a loan amendment with the third-party lender which extends the maturity date to December 16, 2019 and requires the payment of principal and accrued interest of $339,746 on that date. The US JV Partner has agreed to provide a guarantee of $339,746 in the event the Company fails to make the payment. The Company continues to be in negotiations with the third-party lender regarding a further extension of the maturity date.

(Expressed in US Dollars unless otherwise stated)

8. Convertible debentures

The Company's convertible debentures were comprised of the following as of December 31, 2019:

Convertible debentures	
	$
Convertible debentures issued to related parties	470,463
Convertible debentures issued to third parties	1,562,137
	2,032,600

2019 CD: On June 5, 2019, the Company issued subordinated secured convertible debentures (the "debentures") in the aggregate amount of CDN$2,036,245 ($1,518,000 at an assumed exchange rate of CDN$0.7455 to US$1.00).

The debentures bear interest at a rate of seven and a half percent (7.5%) per annum, payable monthly in arrears on the 15th day of the following month and will mature on the date that is three years from the closing date. The debentures are secured by a subordinated (second-charge) security interest against the Company's working interest in the Joffre, Alberta property and convertible at any time at the holder's option into common shares of the Company at a conversion price of CDN$0.12 (US$0.0888 at an assumed exchange rate of CDN$0.74 to US$1.00) per common share. The holders of the debentures shall have the right, upon at least 30 days written notice prior to the date that is two (2) years following the closing date, to require the Company to repurchase all amounts outstanding under the debentures on the date that is two (2) years following the closing date, at a repurchase price equal to 115% of the outstanding principal amount of the debenture, together with payment of the interest on the principal amount accrued and unpaid to the repurchase date.

In July 2019, the Company closed a second tranche of the debenture offering (the "2019 debentures"). The Company settled a portion of the debt owed to the subsidiary of the US JV partner. Pursuant to the debt settlement, the Company issued debentures in the aggregate principal amount of CDN$646,554 ($482,000 at an assumed exchange rate of CDN$0.7455 to US$1.00) to shareholders of the US JV partner, namely Roger S. Braugh, Jr., a director of the Company and Chris Pettit & Associates PC, controlled by Christopher J. Pettit, a director of the Company, as trustee of a Trust.

The movement in the Company's 2019 convertible debentures is as follows:

Convertible debentures	
	$
Principal of convertible debenture issuance	2,000,000
Less: Issue costs	(44,187)
Net proceeds on issue	1,955,813
Amortization of debt discount	12,435
Foreign exchange	64,352
Balance, December 31, 2019	2,032,600

June 2016 CD:

On June 27, 2016, the Company issued the June 2016 debentures in the aggregate amount of $6,000,000 as partial purchase price consideration for the acquisition of assets in Texas, USA.

The June 2016 debentures bear interest at a rate of six percent (6%) per annum, calculated and payable monthly and were to mature on June 27, 2019. The June debentures were secured against all of the real and personal property of the Corporation and the principal amount is convertible at any time after June 27, 2017 and prior to maturity at the holder's option into common shares of the Company ("Common Shares") at a conversion price of CDN$0.07 per common share.

(Expressed in US Dollars unless otherwise stated)

8. Convertible debentures *(continued)*

The June 2016 debentures were denominated in a currency other than the Company's functional currency. As a result, the conversion feature is treated as a derivative liability and its fair value is estimated at each financial position date with any changes recognized in earnings. The fair value of the liability component of the convertible debentures was determined by discounting the expected future cash flows of the convertible debenture using an interest rate of 25%. The liability component is accreted over the respective term to the principal value on maturity date and a corresponding non-cash accretion charge to profit or loss. The fair value of the embedded derivative component is adjusted to fair value at each financial position date.

On March 27, 2018, the June 2016 debentures were converted into 110,451,428 common shares of the Company On conversion, the amount of the amortized liability component of $4,962,742 and the fair value of the derivative component of $4,742,039 were derecognized, and a total of $9,704,781 has been recognized as an increase to common stock (Note 11).

The fair value of the conversion feature was determined using a Black-Scholes option pricing model and the following assumptions effective immediately before conversion on March 27, 2018: (a) a CDN/US exchange rate of 1.2886, (b) dividend yield of 0%, (c) expected volatility of 134%, (d) risk free rate of 2.26%, (e) an expected life of 1.25 years, and (f) a share price of CDN$0.09/share.

A director of the Company provided and $3,000,000 of the total $6,000,000 principal of the US dollar convertible debenture financing raised in June 2016. In addition, another director acts as trustee of a Trust which provided the remaining $3,000,000 of the US dollar convertible debenture financing raised in 2016.

The movement in the Company's 2016 convertible debentures is as follows:

Liability portion of convertible debentures	
	$
Balance, December 31, 2017	4,739,626
Amortization of debt discount	171,563
Foreign exchange loss	51,553
Conversion to common shares	(4,962,742)
Balance, December 31, 2018	-

Embedded derivative related to convertible debentures	**$**
Balance, December 31, 2016	2,022,857
Derivative loss on revaluation	3,199,638
Foreign exchange loss	254,648
Balance, December 31, 2017	5,477,143
Derivative gain on revaluation	(631,560)
Foreign exchange	(103,544)
Conversion to common shares	(4,742,039)
Balance, December 31, 2018	-

(Expressed in US Dollars unless otherwise stated)

9. Long-term debt

	December 31, 2019	December 31, 2018
	$	$
Credit Facility	-	3,775,000
Loan payable	-	200,000
Balance, December 31, 2017	-	3,975,000
Less: current portion	-	(3,975,000)
Long-term portion	-	-

Credit Facility

On December 14, 2016 and in connection with an equity offering, the Company entered into a line of credit agreement (the "Credit Facility") with ACH Management, LLC, an arm's length third party private corporation ("ACH" or the "Lender") for $8,000,000. The Credit Facility could be drawn at the option of the Company during the period ended December 14, 2017. The Credit Facility was to mature on December 14, 2019. Funds advanced under the Credit Facility were to bear interest at a rate of 6% per annum, payable monthly. The Credit Facility was secured by a first lien on the Company's Texas properties.

The obligations of the Company under the Credit Facility were also guaranteed by the Company's wholly owned US subsidiary pursuant to an unconditional secured guarantee. The Lender and the holders of the outstanding debentures and notes of the Company entered into an intercreditor agreement that provided that such creditors would rank on a *pari passu* basis (only with respect to those specific creditors) in the event of any enforcement on any assets of the Company, provided that the Lender would have a first priority claim on certain property of the Company and its US subsidiary.

As of August 2017, the Company had drawn an aggregate of $3,775,000 on the Credit Facility.

Following the failure of the Lender to timely fund loan draw advances, the Company and Lender agreed to amendments of the Credit facility on July 27, 2017 and September 27, 2017 (the "Amendments"). Pursuant to the terms of the Amendments:

1) The Credit Facility availability end date was extended from December 14, 2017 to June 17, 2018 and the remaining $4,225,000 available under the line of credit was agreed to be advanced by the Lender in varying scheduled amounts from October 3, 2017 through to December 5, 2017. The extension of the Credit Facility availability end date, in conjunction with the receipt of timely funding of the remaining $4,225,000 from the Lender as of September 27, 2017, also extended the date that a minimum of twelve (12) wells in Polk County, Texas must be drilled and completed in the Yegua formation from December 31, 2017 to June 17, 2018. Monthly principal payments were to commence on the Credit Facility starting on the month after the Credit Facility availability date or July 2018.

2) The Lender granted the Company options to purchase certain interests in oil and gas properties, subject to entering into formal documentation.

3) The Lender entered into a subordination agreement ("the ACH Subordination Agreement") pursuant to which it agreed to subordinate all of its rights in all collateral securing the loan under the Credit Facility and its right to repayment, to a future senior lender of the Company to be determined by the Company in its sole discretion. As reflected above, this subordination has become effective and no repayments under the Credit Facility were due by the Company to the Lender.

4) All interest accrued and payable under the Credit facility from inception until September 27, 2017 was waived. Interest was to commence on the Credit facility from September 28, 2017 forward.

   After September 27, 2017, the Lender did not provide any further loan advances pursuant to the Amendments.

9. Long-term debt *(continued)*

The Amendments also included further remedies that were available to the Company due to the default of the Lender. Pursuant to the July 27, 2017 amendment, the Lender was restricted from exercising, selling, transferring or assigning all common share purchase warrants held by the Lender. Pursuant to the September 27, 2017 amendment, the Lender agreed that up to 12,337,500 common shares of the Company held by the Lender would be available for repurchase or sale to a third party (with the proceeds being paid to the Company), were held in escrow until completion of such repurchase or sale. In the event of a repurchase and cancellation of such shares by the Company, the purchase price of CDN$0.10 per share would be deemed to be a further loan advance under the Credit Facility. During the fourth quarter of 2017, the Lender sold 383,190 common shares to a third party for $30,000 which was recognized by the Company as a gain on disposition of shares on the 2017 consolidated statements of loss. In addition, as of September 27, 2017, all common share purchase warrants held by the Lender (Note 12) were available to be cancelled or transferred to third parties by the Lender at the discretion of the Company.

Litigation and Mediated Settlement Agreement

On April 18, 2018, William E. Robinson, Jr. (the "Plaintiff") filed a claim against the Company's lender ACH Management, LLC ("ACH"), the Company, and its wholly owned subsidiary, Tanager Energy (USA) Inc., as defendants, in a Dallas, Texas state court. ACH was also a shareholder in the Company. The Plaintiff's claims arose from alleged fraudulent representations and omissions by ACH which induced the Plaintiff to make investments and loans, directly or indirectly, to the Company. The total amount of recoupment sought by the Plaintiff was US$3,775,000. The Plaintiff was also seeking unspecified amounts for legal fees, pre and post judgement interest at the highest rate allowed by law, and unspecified exemplary damages against ACH. The Plaintiff had sued ACH for fraud, fraud by non-disclosure, and statutory fraud. The Plaintiff had sued the Company defendants for money had and received and seeks relief in the form of a declaratory judgment that 21,000,000 common shares and 21,000,000 share purchase warrants (Notes 11 and 12), originally issued in December 2016, should be issued in the name of the Plaintiff instead of ACH. The Company denied all allegations and claims for relief and vigorously defended the claims filed against them by the Plaintiff.

On October 5, 2018, the Company filed a third amended answer, affirmative defenses and original counterclaims against the Plaintiff and cross-claims against ACH. The counterclaims against the Plaintiff and cross-claims against ACH include many allegations including breach of contract, fraud and fraudulent inducement, tortious interference, and joint participation and joint liability. Pursuant to this filing, Tanager requested the court to dismiss the claim by the Plaintiff against the Company, and seek a judgment for actual, consequential and special damages sustained by the Company exemplary damages to be assessed in an amount to be determined by the jury, an award of attorney's fees allowed by statute and contract and court costs, and pre and post judgment interest awarded to the Company, in addition to an injunction and sanctions against the Plaintiff. The total amount sought under the counterclaim and cross-claims by the Company was in excess of US$1 million and to be determined by jury trial.

A mediation among the parties occurred resulting in the execution of a Mediated Settlement Agreement (the "Agreement") dated December 11, 2018 setting forth a binding agreement among William E. Robinson, Jr., ACH Management, LLC, Tanager Energy Inc., and Tanager Energy (USA) Inc. (collectively the "Parties").

Pursuant to the Agreement, the Company was to pay to the Plaintiff in the total amount of $1,000,000, to be paid in equal installments over 4 months on dates from January 15 through April 15, 2019. During the three months ended March 31, 2019, $750,000 of payments were made. After the final $250,000 payment to the Plaintiff made was by the Company on April 12, 2019, the Company had no further obligations to any of the Parties. Also, after the final payment, with respect to the securities of the Company currently held by ACH, 9,765,000 common shares were transferred from ACH to the Plaintiff, and the remaining 10,851,810 common shares and 21,000,000 common share purchase warrants (Note 12) were to be cancelled, transferred or assigned by ACH, as directed by the Company at a future date.

Given the timely completion of the final payment and transfer of the shares to the Plaintiff, the existing lawsuit against the Company and its subsidiary was dismissed with prejudice. The remaining outstanding loan principal of $2,775,000 and accrued interest has been forgiven and there are no further obligations under the credit facility. As a result, a gain on settlement of debt of $3,110,629 has been recorded in consolidated statements of income (loss) and comprehensive income (loss) for year ended December 31, 2019.

(Expressed in US Dollars unless otherwise stated)

9. Long-term debt *(continued)*

On June 5, 2019, the Lender sold the remaining 10,851,810 common shares, as referred above, to a third party and the Company recognized a further gain on settlement of debt of $243,361 in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2019.

Loan Payable

In November 2017, the Company received a loan payable of $200,000 from an arm's length third party individual. Pursuant to the terms of the loan, the loan is unsecured and bears interest at 6% per annum. Monthly principal payments on the loan were to commence in July 2018 and the loan were to mature and the remaining principal is due and payable on December 31, 2019. On March 25, 2019, the Company entered into a new loan agreement with the same arm's length third party individual extending the maturity date of the loan to December 31, 2020 with the $200,000 outstanding principal and all accrued interest due at that date.

In June 2019, this $200,000 loan was repaid after completion of the convertible debenture financing as described in Note 8.

10. Asset retirement obligations

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas properties:

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	204,767	259,771
Accretion	15,719	17,509
Additions	31,581	-
Change in estimate	57,000	(58,994)
Foreign exchange	7,528	(13,519)
Balance, end of year	316,595	204,767

As at December 31, 2019, the Company estimated the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $523,000 (2018 - $472,000) which will be incurred between 2021 and 2050. A credit adjusted risk-free rate between 6.39% and 7.32% (2018: 7.15% and 7.78%) and an inflation rate of 2.0% (2018: 2.0%) were used to calculate the fair value of the decommissioning liabilities as at December 31, 2018.

11. Common stock

(a) Authorized common stock

The authorized common stock consists of an unlimited number of Class A common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) Common shares issued and outstanding

The change in issued common shares is as follows:

	Number of common shares	**Amount $**
Balance, December 31, 2017	**124,835,388**	**22,024,994**
Conversion of convertible debentures (i)	110,451,428	9,704,781
Balance, December 31, 2018 and December 31, 2019	**235,286,816**	**31,729,775**

(i) On March 27, 2018, the outstanding June 2016 convertible debentures in the aggregate principal amount of $6,000,000 (Note 8) due on June 27, 2019, were converted by the holders at a conversion price of CDN$0.07 per share, into an aggregate of 110,451,428 Common Shares of the Company. On conversion, the amount of the amortized liability component of $4,962,742 and the fair value of the derivative component of $4,742,039 were derecognized, and a total of $9,704,781 has been recognized as an increase to common stock.

(Expressed in US Dollars unless otherwise stated)

12. Warrants

On December 14, 2016 and December 22, 2016, the Company completed the closing of two separate tranches of a non-brokered private placement of 16,000,000 and 5,000,000 units (“Units”), respectively, or a total of 21,000,000 Units for CDN$2,100,000 (US$1,600,243 equivalent). Each Unit consisted of one common share of the Company and one common share purchase warrant (“Warrant”), with each Warrant entitling the holder thereof to purchase one additional common share at a price of CDN$0.10 per common share until the date that is twenty months from the respective closing date until the date and CDN$0.12 per common share for the period from twenty months from the respective closing date until the date that is thirty-two months from the respective closing date. All 21,000,000 common share purchase warrants remained outstanding as of December 31, 2018. On August 22, 2019, all 21,000,000 common share purchase warrants expired unexercised.

As a result, $1,090,753 of the gross proceeds was allocated to the common shares and $509,490 was allocated to the Warrants which was recorded in additional paid in capital. The fair value of the Warrants was calculated using the Black-Scholes pricing model with the following assumptions: (a) dividend yield of 0%, (b) expected volatility of 60%, (c) risk free rate of 0.80%, and (d) an expected life of 32 months.

13. Stock options

The Company has a Stock Option Plan (the "Plan") to provide incentive for the directors, officers, employees, consultants and service providers of the Company. The total number of options granted to any one individual in any 12 month period, will not exceed 5% of the issued common shares of the Company.

Under the Plan, options may be granted to directors, officers, key employees and consultants of the Company. The Plan is a "rolling" stock option plan reserving for issuance upon the exercise of options granted pursuant to the plan a maximum of 10% of the issued and outstanding shares of the Company at any time, less any shares required to be reserved with respect to options granted by the Company prior to the implementation of the Plan.

Under TSX Venture Exchange policies, a "rolling" stock option plan which sets the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares at the time of the grant must be approved and ratified by shareholders on an annual basis.

On April 6, 2017, the Company granted 2,000,000 stock options to directors and officers of the Company with an exercise price of CDN$0.15 and an expiry date of April 6, 2022. These stock options vest, as to 50%, on the grant date, as to 25%, on each of the first and second anniversaries of the grant date. As of December 31, 2019, all of these stock options have vested and remain outstanding.

The Black-Scholes option pricing model, with the following assumptions, were used to fair value the 2017 options granted:

Risk free rate	1.06%
Expected life	5 years
Expected volatility	125%
Expected dividend	-
Forfeiture rate	0%
Fair value of option	CDN$0.12

The 2017 options granted had a fair value at grant date of CDN$243,396. For the years ended December 31, 2019 and 2018, the Company recorded share-based compensation expense of $5,957 and $35,702, respectively.

(Expressed in US Dollars unless otherwise stated)

14. Interest expense

	For the years ended December 31,	
	2019	2018
	$	$
Interest expense [(1)]	**354,714**	378,795
Debt discount amortization (Note 8)	**12,435**	171,563
	367,149	550,358

(1) Interest expense for the year ended December 31, 2019 includes $82,235 (2018 – $81,156) of interest on convertible debentures, and $272,479 (2018 – $297,639) of interest accrued on the Credit Facility, Note Payable and Loans Payable.

15. Net income (loss) per common share

The calculation of basic net income per share for the year ended December 31, 2019 was based on the net income attributable to common shareholders of $1,479,561 (2018 – $3,058,324 net loss) and the weighted average number of common shares outstanding of 235,286,816 (2018 – 209,565,251). In computing diluted net income (loss) per share for the year ended December 31, 2019, a total of 2,000,000 (2018 - 2,000,000) common share options and nil warrants (2018 - 21,000,000) were excluded from the denominator as a consequence of applying the treasury stock method and a total of 22,356,658 (2018 - nil) common shares issuable on conversion of convertible debentures were also added to the denominator as they were dilutive, resulting in diluted weighted average common shares of 257,643,474 (2018 – 209,565,251). As a consequence, a total of $82,235 (2018 - $nil) for interest accretion expense was added to the numerator for the year ended December 31, 2019.

16. Related party transactions

Related parties include the Board of Directors, senior management and enterprises that are controlled by these individuals. Related party transactions are conducted in the normal course of operations under normal market conditions and terms. The following transactions were entered into with related parties during the years ended December 31, 2019 and 2018:

(a) The Company incurred 6% coupon interest on the 2016 US dollar denominated debentures and 7.5% coupon interest on the 2019 Canadian dollar denominated debentures. During the year ended December 31, 2019, a total of $30,145 (2018 - $81,156) coupon interest was incurred on the portion of these convertible debentures held by a director and the Trust. Total accrued interest payable to the director and the Trust as of December 31, 2019, 2018 was $229,254 (2018 – $225,033) and is included in accounts payable and other liabilities. On March 27, 2018, the US dollar denominated debentures were converted into 110,451,428 Common Shares of the Company.

(b) The Company conducts all of U.S. operations with one joint venture partner (the "US JV Partner"). The US JV Partner is owned by a director of the Company and a Trust controlled by another director in his capacity as trustee of the Trust. The US JV Partner is considered a related party for accounting purposes by virtue of a common director and that the ownership group of the US JV Partner also holds 123,966,428 common shares of the Company, representing an ownership of 52.69% of the Company. The results of the Company's US operations conducted with the US JV Partner are shown in the segmented financial information in Note 19. In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of $1,745,591 into a promissory note. In addition, the Company entered into a loan from a wholly owned subsidiary of the US JV Partner for a total available amount of US$1,250,000 and later amended to $2,100,000. For further details, refer to Note 7. Each of these loans bear interest at a rate of 0.5% above the Wall Street Journal prime rate. During the year ended December 31, 2019, a total of $189,078 (2018 - $38,064) interest was accrued on both of these loans. Included in accounts payable as at December 31, 2019 is $756,869 (2018 - $286,949) owing to the US JV Partner and its subsidiary.

(Expressed in US Dollars unless otherwise stated)

16. Related party transactions *(Continued)*

(c) In October 2018, the Company, on behalf of its US JV Partner, arranged for acquisition of the other 50% interest held in the Joffre, Alberta D-3 B oil pool assets from its former JV partner for CDN$300,000 (US$228,953 equivalent) payable in cash. Pursuant to the terms of the agreement with the former JV partner, it was agreed that all net balances owing to or from the Company would be settled for no further consideration. As a result, in the fourth quarter of 2018 the Company reduced its accounts receivable, accounts payable and extinguished the CDN$190,000 loan payable to the former JV partner (Note 7) and recorded the $74,683 difference to a gain on settlement on the Consolidated Statements of Loss and Comprehensive Loss.

17. Income taxes

The provision for income taxes is as follows:

	2019	2018
	$	$
Current tax expense (benefit)	**-**	-
Deferred tax expense (benefit)		
Canada	**1,142,007**	(152,981)
United States	**(255,777)**	(486,225)
Total deferred tax benefit	**886,230**	(639,206)
Total income tax expense (benefit) before valuation allowance	**886,230**	(639,206)
Valuation allowance (utilization of losses carried)	**(886,230)**	639,206
		-

On June 28, 2019 Alberta Bill 3, the Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act, was signed into law resulting in a reduction of the Alberta corporate tax rate from 12% to 11% effective July 1, 2019, with further 1% rate reductions to take effect every year on January 1 until the general corporate tax rate is 8% on January 1, 2022.

The Company's Canadian statutory income tax rate of 23.0% (2018 – 27%) is comprised of a Federal rate of 15% and an Alberta provincial tax rate of 8% for the 2019 tax year, which is based upon the expected utilization of existing temporary differences in years after 2021.

The Company's US subsidiary has a statutory income tax rate of 21% consisting of federal taxes of 21% and no state income tax in Texas for 2018 and 2019 tax years.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2019	2018
	$	$
Deferred tax assets:		
Net-operating losses carried forward (Canada)	**757,081**	1,508,459
Net-operating losses carried forward (USA)	**1,529,298**	1,305,517
Financing costs	**8,158**	16,454
Oil and gas properties	**1,949,958**	149,669
Less valuation allowance	**(4,244,495)**	(4,980,099)
	-	-

The Company has CDN$4,275,201 (2018 – CDN$7,621,629) net operating losses in Canada which expire between 2035 and 2038. The Company has net operating losses for income tax purposes in the U.S. of US$7,282,370 (2018 – $6,216,747), of which $6,041,744 which expire by 2038 and $1,240,626 will carry forward indefinitely. Canadian and US tax returns for the 2019 year are subject to examination by the respective tax authorities.

(Expressed in US Dollars unless otherwise stated)

18. Revenue

The Company sells its production pursuant to variable price contracts entered into by the Company's operator or contract operator of its joint operations. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, natural gas, and NGLs to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price.

Currently, all of the Company's crude oil, natural gas and NGLs is sold on the Company's behalf at spot prices received by the operator or contract operator of the Company's joint operations. Gathering fees charged to third parties are earned under multi-year contracts at fixed fees by volume.

Revenue from petroleum and natural gas sales is presented net of associated royalties.

The following table provides a summary of the Company's revenue disaggregated by revenue source for the years ended December 31, 2019 and 2018:

	2019	2018
	$	$
Crude oil	**78,271**	101,639
Natural gas liquids	**1,552**	7,449
Natural gas	**181,642**	475,435
Petroleum and natural gas sales	**261,465**	584,523
Other income (1)	**189**	1,659
Total revenue	**261,654**	586,182

(1) Other income primarily consists of gathering fee income and sulfur sales.

Revenue received from one contract operator and from the US JV Partner represented 32% (2018 - 20%) and 68% (2018 - 80%), respectively, of the total revenue during the year ended December 31, 2019.

(Expressed in US Dollars unless otherwise stated)

19. Segmented financial information

The Company's reportable segments are determined based on its geographic locations. Canada includes the exploration for, and development and production of, crude oil and natural gas in Alberta, Canada and the acquisition, exploration and development of precious and base metal properties in Ontario, Canada. U.S. includes the exploration for, and the development and production of, crude oil and natural gas in Texas, USA. Corporate includes corporate activities and items not allocated between operating segments.

For the year ended December 31, 2019	Canada	U.S.	Corporate	**Consolidated**
	$	$	$	**$**
Revenue, net of royalties	83,347	178,307	-	**261,654**
Operating costs and expenses				
Lease operating expenses	100,843	153,355	-	**254,198**
Production taxes	-	4,367	-	**4,367**
General and administrative expenses				
Share-based payments	-	-	5,957	**5,957**
Other general and administrative expenses	-	-	815,359	**815,359**
Depletion, depreciation and accretion	97,789	497,299	-	**595,088**
Impairment	-	112,917	-	**112,917**
Mining royalty and staking	72,498	-	-	**72,498**
Total operating costs and expenses	271,130	767,938	821,316	**1,860,384**
Loss from operations	(187,783)	(589,631)	(821,316)	**(1,598,730)**
Other income and (expense)				
Interest expense	-	-	(367,149)	**(367,149)**
Foreign exchange gain	-	-	78,728	**78,728**
Gain on forgiveness of debt	3,110,629	-	-	**3,110,629**
Gain on disposition of unproved properties	-	12,722	-	**12,722**
Gain on disposition of shares	-	-	243,361	**243,361**
Other income and (expense), net	3,110,629	12,722	(45,060)	**3,078,291**
Net income attributable to shareholders	2,922,846	(576,909)	(866,376)	**1,479,561**
Unproved oil and gas properties expenditures				
Additions	-	116,191	-	**116,191**
Properties adjustment	-	(151,069)	-	**(151,069)**
Disposition		(12,278)		
Asset retirement adjustments	-	470	-	**470**
	-	(46,686)	-	**(34,408)**
Proved oil and gas properties expenditures				
Additions	522,570	290,136	-	**812,706**
Asset retirement adjustments	76,527	11,584	-	**88,111**
Foreign currency translation	29,162	-	-	**29,162**
	628,259	301,720	-	**929,979**
As at December 31, 2019				
Canadian assets	1,116,669	-	-	**1,116,669**
U.S. assets	-	9,412,242	-	**9,412,242**
Corporate assets	-	-	-	**-**
	1,116,669	9,412,242	-	**10,528,911**

(Expressed in US Dollars unless otherwise stated)

19. Segmented financial information *(continued)*

For the year ended December 31, 2018	Canada	U.S.	Corporate	Consolidated
	$	$	$	**$**
Revenue, net of royalties	114,701	471,481	-	**586,182**
Operating costs and expenses				
Lease operating expenses	135,266	112,391	-	**247,657**
Production taxes	-	53,419	-	**53,419**
General and administrative expenses				
Share-based payments	-	-	35,702	**35,702**
Other general and administrative expenses	-	-	1,382,599	**1,382,599**
Depletion, depreciation and accretion	57,195	1,489,577	-	**1,546,772**
Impairment	-	138,742	-	**138,742**
Mining royalty and staking	30,870	-	-	**30,870**
Total operating costs and expenses	223,331	1,794,129	1,418,301	**3,435,761**
Loss from operations	(108,630)	(1,322,648)	(1,418,301)	**(2,849,579)**
Other income and (expense)				
Interest expense	-	-	(550,358)	**(550,358)**
Unrealized gain on embedded derivatives	-	-	631,560	**631,560**
Foreign exchange loss	-	-	(364,830)	**(364,830)**
Gain on forgiveness of debt	74,683	-	-	**74,683**
Other income and (expense), net	74,683	-	(283,628)	**(208,945)**
Net loss attributable to shareholders	(33,947)	(1,322,648)	(1,701,929)	**(3,058,524)**
Unproved oil and gas properties expenditures				
Additions	-	225,096	-	**225,096**
Asset retirement adjustments	-	1,586	-	**1,586**
Foreign currency translation	-	(1,674)	-	**(1,674)**
	-	225,008	-	**225,008**
Proved oil and gas properties expenditures				
Additions	4,047	141,838	-	**145,885**
Asset retirement adjustments	(66,232)	5,652	-	**(60,580)**
Foreign currency translation	-	(34,112)	-	**(34,112)**
	(62,185)	113,378	-	**51,193**
As at December 31, 2018				
Canadian assets	356,128	-	-	**356,128**
U.S. assets	-	9,768,979	-	**9,768,979**
Corporate assets	-	-	-	**-**
	356,128	9,768,979	-	**10,125,107**

(Expressed in US Dollars unless otherwise stated)

20. Commitments

(a) The Company has the following debt obligation principal repayments over the next five years (Note 7, 8, and 9):

Year	$
2020	3,293,591
2021	2,032,600
2022	-
2023	-
2024	-

(b) The Company currently holds a 100% interest in the Burchell Lake Gold Property.

The Company must perform a required level of evaluation activity, to maintain its mining property in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to the claims comprising this property or parts thereof. The Company is required to incur the following minimum expenditures for the next five years to maintain its claims in good standing:

Year	CDN $
2020	52,752
2021	91,600
2022	91,600
2023	91,600
2024	-

The Burchell Lake Gold Property is subject to a 3% Net Smelter Return Royalty ("NSR") and is subject to advance royalty payments of CDN $40,000 per annum, payable to the original optionors of the properties, subject to certain criteria. These funds are to be recouped out of future production.

(c) Pursuant to an exploration agreement with the US JV Partner, the Company committed to pay for 100% of the costs of the first joint venture well drilled in the Yegua formation and will earn a 50% working interest in the net revenue from that well. Further, the Company shall pay an aggregate maximum of $3,500,000 (the "Carry Funding Amount") for 100% of the costs of all subsequent Yegua wells which allows the Company to earn a 75% working interest in the net revenue from these wells until the Carry Funding Amount has reached payout. After payout of the Carry Funding Amount, the Company's working interest in these and future wells shall reduce to 50%. In 2017, the Company drilled six joint venture wells in the Yegua formation and has calculated that it has incurred costs up to the Carrying Fund Amount in 2018.

In addition, pursuant to the exploration agreement, the Company has agreed to pay 100% of the costs associated with recompletion of the Cain-Carter #1 well and earns a 50% working interest in the net revenue from that well. The Cain-Carter #1 well has not been recompleted as of December 31, 2019.

21. Subsequent events

On December 23, 2019, the Company announced that it has entered into a definitive Merger Agreement (the "Agreement") under which the Company will acquire EF Resources, Inc. ("EFR"), the owner of the EnergyFunders financial technology platform. The transaction has been unanimously approved by the board of directors of both the Company and EFR. Pursuant to the terms of the Agreement, the transaction is expected to be completed through a merger of EFR and an indirect US subsidiary of the Company under Texas law pursuant to which the Company shareholders and EFR shareholders will hold, on a fully diluted basis, 75% and 25% of the total issued common shares of the Company, respectively. Completion of the transaction is subject to a number of closing conditions, including restructuring of related party debt, acquisition of certain leasehold farm-in rights from related parties by the Company on terms agreeable to the parties, required regulatory approvals including the approval of the TSX Venture Exchange and compliance with any conditions to such approval, and other customary closing conditions for a transaction of this nature.

The transaction continues to be in progress.