

TOPAZ RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	For the Years Ended December 31,	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 5,791	\$ 128,112
Other receivables	321,065	-
Total Current Assets	<u>326,856</u>	<u>128,112</u>
PROPERTY AND EQUIPMENT		
Investment in oil and natural gas properties		
- Zinn Campbell Lease	237,849	237,849
- Zinn Campbell Improvements	167,514	-
Total Property	<u>405,364</u>	<u>237,849</u>
TOTAL ASSETS	<u>\$ 732,219</u>	<u>\$ 365,961</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,451	\$ -
Notes Payable	52,850	101,184
Promissory notes payable from shareholders	184,000	-
Total Current Liabilities	<u>244,301</u>	<u>101,184</u>
STOCKHOLDERS' EQUITY		
Preferred stock; \$0.0001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock subscribed and unissued	196,000	186,500
Common stock, \$0.0001 par value; 700,000,000 shares authorized; 42,614,136 and 33,118,875 shares issued and outstanding at 2018 and 2017, respectively	4,261	3,312
Additional paid-in capital	1,718,095	769,544
Accumulated deficit	(1,430,438)	(694,579)
Total Stockholders' Equity	<u>487,918</u>	<u>264,777</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 732,219</u>	<u>\$ 365,961</u>

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

TOPAZ RESOURCES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Years Ended December 31,	
	2018	2017
	<u> </u>	<u> </u>
REVENUES	\$ <u> -</u>	\$ <u> 7,727</u>
OPERATING EXPENSES		
General and administrative expenses	92,426	13,541
Loss on Investment in oil and gas properties	-	135,331
Officer compensation	180,003	62,428
Professional fees	463,430	40,110
TOTAL OPERATING EXPENSES	<u>735,859</u>	<u>251,409</u>
INCOME (LOSS) FROM OPERATIONS	<u>(735,859)</u>	<u>(243,682)</u>
INCOME (LOSS) BEFORE TAXES	<u>(735,859)</u>	<u>(243,682)</u>
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	\$ <u><u>(735,859)</u></u>	\$ <u><u>(243,682)</u></u>
NET INCOME (LOSS) PER COMMON SHARE, BASIC AND DILUTED	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.01)</u></u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u><u>40,410,283</u></u>	<u><u>23,957,823</u></u>

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TOPAZ RESOURCES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (735,859)	\$ (243,682)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depletion	-	-
Increase (decrease) in other receivables and other current assets	(321,065)	(454)
Increase (decrease) in:		
Stock Base Compensation	320,000	-
Accounts payable and accrued expenses	7,451	36,286
Net cash provided (used) by operating activities	<u>(729,472)</u>	<u>(207,850)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in investment in oil and gas	-	95,362
Increase in improvements	(167,514)	(237,849)
Net cash provided (used) by investing activities	<u>(167,514)</u>	<u>(142,487)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of common stock in private placement	598,000	340,000
Promissory Note Payable, from shareholders	184,000	-
Promissory Note Incentive	41,000	-
Notes Payable	(48,334)	101,184
Net cash provided by financing activities	<u>774,666</u>	<u>441,184</u>
Net increase (decrease) in cash and cash equivalents	(122,321)	90,847
Cash, beginning of period	<u>128,112</u>	<u>37,265</u>
Cash, end of period	<u>\$ 5,791</u>	<u>\$ 128,112</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ <u>1,288</u>	\$ <u>-</u>
Income taxes paid	\$ <u>-</u>	\$ <u>-</u>

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

TOPAZ RESOURCES, INC.
Notes to the (Unaudited) Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS AND ORGANIZATION

Topaz Resources, Inc. formerly Kids Germ Defense Corp. (the "Company") is a development stage enterprise that was incorporated in the state of Florida on January 16, 2009. The corporate headquarters are located in Denton, Texas. The Company is an independent oil and gas company focusing on production, acquisitions and developmental drilling opportunities within proven producing areas of North-Central-West Texas.

Effective March 4, 2010, the Company changed its name from Kids Germ Defense Corp. to Topaz Resources, Inc.

On March 4, 2010 the Company commenced oil and gas exploration and development activities.

CONSOLIDATION

The accompanying condensed consolidated financial statements include all accounts of Topaz and its wholly-owned subsidiary, H2 Energy Corporation. All significant inter-company balances and transactions have been eliminated in consolidation.

OIL AND GAS PROPERTIES

The Company uses the full cost method of accounting for its oil and natural gas properties. Under this method, the Company capitalizes all acquisition, exploration and development costs incurred for the purpose of finding oil and natural gas reserves, including leasehold acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling of productive and non-productive wells into the full cost pool. To the extent that support equipment is used in oil and gas activities, the related depreciation is capitalized. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion and depreciation rate by 20% or more. When the Company obtains proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves proved and estimated abandonment costs, net of salvage, are depleted on the units-of-production method using estimates of proved reserves. The costs of unproved properties are not amortized until it is determined whether or not proved reserves can be assigned to the properties. The Company assesses its properties at least annually to ascertain whether impairment has occurred. In assessing impairment, the Company considers factors such as historical experience and other data such as primary lease terms of the property, average holding periods of unproved property, and geographic and geologic data.

Capitalized costs of development oil and natural gas properties may not exceed an amount equal to the present value, discounted at 10%, of estimated future net revenues from proven reserves plus the lower of cost or fair value of unproven properties. Should capitalized costs exceed this ceiling, impairment is recognized.

The present value of estimated future net cash flows is computed by applying the average first-day-of-the-month prices during the previous twelve month period of oil and natural gas to estimated future production of proved oil and natural gas reserves as of year-end less estimated future expenditures to be incurred in developing and producing the proved reserves and assuming continuation of existing economic conditions.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All of the Company's non-interest bearing cash balances were fully insured at December 31, 2018 and December 31, 2017. Insurance coverage was \$250,000 per depositor at

TOPAZ RESOURCES, INC.
Notes to the (Unaudited) Financial Statements

each financial institution. At December 31, 2018 and December 31, 2017, there were no amounts held in excess of federally insured limits.

REVENUE RECOGNITION

The Company recognize revenue when all of the following criteria have been met: (i) evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed and determinable and (iv) collectability is reasonably assured.

- Evidence of an arrangement exists when a final understanding between us and our customer has occurred, and can be evidenced by a completed customer purchase order, field ticket, supplier contract, or master service agreement.
- Delivery has occurred or services have been rendered when we have completed requirements pursuant to the terms of the arrangement as evidenced by a field ticket or service log.
- The price to the customer is fixed and determinable when the amount that is required to be paid is agreed upon. Evidence of the price being fixed and determinable is evidenced by contractual terms, our price book, a completed customer purchase order, or a completed customer field ticket.
- Collectability is reasonably assured when we screen our customers and provide goods and services to customers according to determined credit terms that have been granted in accordance with our credit policy.

We present our revenues net of any sales taxes collected by us from our customers that are required to be remitted to local or state governmental taxing authorities.

We review our contracts for multiple element revenue arrangements. Deliverables will be separated into units of accounting and assigned fair value if they have standalone value to our customer, have objective and reliable evidence of fair value, and delivery of undelivered items is substantially controlled by us. We believe that the negotiated prices for deliverables in our services contracts are representative of fair value since the acceptance or non-acceptance of each element in the contract does not affect the other elements.

INCOME TAXES

Deferred income tax assets and liabilities arise from temporary differences associated with differences between the financial statements and tax basis of assets and liabilities, as measured by the enacted tax rates, which are expected to be in effect when these differences reverse. Deferred tax assets and liabilities are classified as current or non-current, depending on the classification of the assets or liabilities to which they relate. Deferred tax assets and liabilities not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. The principal types of temporary differences between assets and liabilities for financial statements and tax return purposes are set forth in Note 8.

The Company follows the provisions of FASB ASC 740-10 “*Uncertainty in Income Taxes*” (ASC 740-10), January 1, 2007. The Company has not recognized a liability as a result of the implementation of ASC 740-10. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there are no unrecognized benefits at December 31, 2018. The Company has not recognized interest expense or penalties as a result of the implementation of ASC 740-10. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

EARNINGS PER SHARE

The Company follows ASC Topic 260 to account for the earnings per share. Basic earnings per common share (“EPS”) calculations are determined by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

ADVERTISING

TOPAZ RESOURCES, INC.
Notes to the (Unaudited) Financial Statements

The Company expenses advertising costs as incurred. There were \$2,216 and \$2,850 in advertising costs incurred during the years ended December 31, 2018 and 2017, respectively.

FINANCIAL INSTRUMENTS

The Company accounts for financial instruments in accordance with FASB Accounting Standards Codification (ASC) 820 "*Fair Value Measurements and Disclosures*" (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The carrying amounts reported in the balance sheet for cash, receivables, accounts payable, accrued interest and notes payable approximate their fair market value based on the short-term maturity of these instruments.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Company has evaluated all accounting pronouncements through the issuance of these financial statements and there were no new accounting pronouncements that had a significant impact on the Company's operating results, financial position or financial statements.

NOTE 2 - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the year ended December 31, 2018, the Company had a net loss of \$735,859 and an accumulated deficit of \$1,430,438. In view of these matters, the Company's ability to continue as a going concern is dependent upon the Company's ability to achieve a level of profitability. The Company intends on financing its future development activities and its working capital needs largely from the sale of oil and gas from production from its oil and gas property in north Texas as well as from public equity securities with some additional funding from other traditional financing sources, including bank financing, term notes, loans from shareholders and proceeds from sub-licensing agreements. The financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 - INVESTMENT IN OIL AND NATURAL GAS PROPERTIES

The amounts capitalized as oil and natural gas properties were incurred for the purchase, exploration and ongoing development of properties.

TOPAZ RESOURCES, INC.
Notes to the (Unaudited) Financial Statements

	Acquisition Costs	Evaluation Costs	Total
Balance at December 31, 2016	\$ 78,661	\$ -	\$ 78,661
Costs incurred on purchase, exploratory and development activities during the year ended December 31, 2017	237,849	-	237,849
Depletion	-	-	-
Divest investment in oil and gas well Denton, TX	(78,661)	-	(78,661)
Balance at December 31, 2017	\$ 237,849	\$ -	\$ 237,849
Costs incurred on purchase, exploratory and development activities during the year ended December 31, 2018	167,515	-	121,252
Depletion	-	-	-
Balance at December 31, 2018	\$ 405,364	\$ -	\$ 359,101

In December 2018, the Company negotiated a pooled lease (the "Lease") overlaying and thereby replacing the 5 mineral leases it had acquired in 2017 and netting an 84.375 % working interest and an 82.5% net revenue interest in approximately 2,400 gross acres located in the Archer County Regular Field, which is located in southeastern Archer County, Texas. The Lease includes a drilling requirement for Topaz to drill and complete during the period ending November 1, 2021 (a) at least two wells to a depth above 2,200 feet per year but to a maximum of 6 wells above 2,200 feet and (b) at least one well to a depth below 2,200 feet. The Leases comprises:

- 80 fully equipped, previously producing oil wells in the Gunsight zone at an approximately 1100 foot depth
- Behind Pipe reserves in the Thomas Sand zone at approximately 900 feet depth
- probable reserves at depths below 2,200 feet
- 4 production facilities including tanks, tank batteries, separators, and flow lines
- 4 water injection wells and waterlines

As of December 31, 2018, the Company has done workovers on 10 producing oil wells in the Gunsight zone and completions up pipe in the Thomas Sands zone in 8 of these wells bringing production to more than 200 barrels of oil per day (BOPD). The Company also successfully completed a Phase 1 Environmental Study which is necessary for the permitting process for drilling new wells.

We do not have an independent engineering reserve study report and have not yet conducted internal Company estimates utilizing methods consistent with Securities and Exchange Regulation S-X Rule 4-10 to assign PDP reserves to these wells.

Pursuant to Securities and Exchange Regulation S-X Rule 4-10, the Company's accounting policy is to follow the "full cost" accounting method, including depletion under the unit of production method. The Company has not calculated a depletion expense for the year ended December 31, 2018.

NOTE 4 - PROMISSORY NOTES PAYABLE

During the year ended December 31, 2018, the Company repaid \$48,334 of principal and interest of its notes payable for cash, leaving a balance of principal of \$52,850. The notes bear interest at the rate of 10% per annum. The Company also issued to note holders \$209,000 in promissory notes bearing an interest rate of 12% per annum plus a Stock Grant as a note holder incentive for the funds received of 418,000 shares of restricted common stock, with a relative fair value of \$41,800. The Company repaid \$25,950 of principal and interest of its promissory notes leaving a principal balance of \$184,000. These notes were financed by shareholder.

NOTE 5 – STOCK HOLDERS EQUITY

(a) Common stock transactions:

During the year ended December 31, 2018, the Companies authorized private placement of 3,500,000 shares of restricted common stock at \$0.10 per share for a consideration of \$350,000.

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Notes to the (Unaudited) Financial Statements

During the year ended December 31, 2018, the Company issued:

- 1,940,000 shares of restricted common stock, with a relative fair value of \$194,000 to private placement investors for cash;
- 230,000 shares of restricted common stock, with a relative fair value of \$23,000 for note holder incentive;
- 3,200,000 shares of restricted common stock, with a relative fair value of \$320,000 for stock base compensation;
- 1,610,000 shares of restricted common stock, with a relative fair value of \$161,000 to private placement investors for cash;

NOTE 6 - RELATED PARTY TRANSACTIONS

There were no related party transactions during the year ended December 31, 2018.

NOTE 7 - INCOME TAXES

The Company operates in the United States ("U.S."); accordingly, federal and state income taxes have been provided based upon the tax laws and rates of the U.S. as they apply to the Company's current ownership structure.

The Company accounts for income taxes pursuant to Accounting Standards Codification No. 740, ACCOUNTING FOR INCOME TAXES, which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The Company provides for deferred taxes on temporary differences between the financial statements and tax basis of assets using the enacted tax rates that are expected to apply to taxable income when the temporary differences are expected to reverse.

The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing tax benefits. There are no unrecognized tax benefits that if recognized would affect the tax rate. There were no interest or penalties recognized as of the year ended December 31, 2018. The Company files tax returns in the U.S. and states in which it has operations and is subject to taxation.

The Company's effective tax rate for continuing operations for the year ended December 31, 2018 was approximately 0% because the Company had no taxable income during this year.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area.

NOTE 9 – SUBSEQUENT EVENTS

During Q1 2019, the Company issued 1,280,000 shares of restricted common stock for \$128,000 in cash to private placement investors. These shares were subscribed during Q4 2018.

During Q1 2019, the Company sold \$155,000 of private placement to investors.

During Q1 2019, the Company issued Stock Grants for 180,000 shares of restricted common stock to note holder's incentive, with a fair value of \$18,000. These shares were subscribed during Q4 2018. The Company also issued Stock Grants for 540,000 shares of restricted common stock for services, with a fair value of \$54,000.

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During Q1 2019, the Company issued 12% promissory notes for \$457,500 in cash, maturing in Q2 and Q3, 2019.

During Q1 2019, the Company acquired all of the issued and outstanding membership units of the Texas limited liability company that is the operator of the Company's oil and gas properties.

Except for the foregoing, we have evaluated subsequent events through the date the financial statements were issued. All material events have been disclosed.

NOTE 10 – SUPPLEMENTAL OIL AND GAS INFORMATION

Results of Operations from Oil and Gas Producing Activities

	December 31, 2018	December 31, 2017
Revenue	\$ -	\$ 7,727
Production costs	(167,515)	-
Depletion, depreciation and amortization	-	(7,727)
Impairment of oil and gas property	-	-
Income from oil and gas operations	\$ <u>(167,515)</u>	\$ <u>-0-</u>

Reserve Information

We do not have an independent engineering reserve study report and the Company has not yet conducted an internal reserve evaluation.