Capitan Investment Ltd.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Independent Auditor's Report

To the Shareholders of Capitan Investment Ltd.:

Opinion

We have audited the consolidated financial statements of Capitan Investment Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of investments receivables

Key Audit Matter Description

As described in Note 5 to the consolidated financial statements, the Company has a significant investments receivable balance at the year end of $6.7 million. During the year ended December 31, 2022, the investments receivable balance matured and management decided not to redeem it. Maturity date is yet to be finalized.

We considered this to be a key audit matter as the Company is working with new partners, which has limited payment history this makes assessment of the expected credit losses, as defined by IFRS 9, Financial instruments, particularly judgemental. This resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating the audit evidence relating to management's estimate of the recoverability of investments receivable.

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Audit Response

We responded to this matter by performing procedures in relation to the recoverability of investments receivables. Our audit work in relation to this included, but was not restricted to, the following:

- We tested evidence of the bank receipts for interest income earned during the year.
- We evaluated management's analysis on the recoverability of investments receivable, which included review of project's financial information and construction schedules.
- We sought direct written confirmation from an investee of the investments receivable balance at the reporting date.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sergey Fesenko.

Calgary, Alberta

MNP LLP

April 28, 2023

Chartered Professional Accountants

Capitan Investment Ltd.
Consolidated Statements of Financial Position
(in Canadian dollars)

As at December 31		2022		2021
Assets				
Current assets				
Cash	$	1,652,783	$	1,997,996
Investments (Note 5)		6,772,000		6,339,000
Accounts receivable (Note 6)		240,807		77,890
Prepaid expenses and deposits		660,889		661,259
		9,326,479		9,076,145
Property and equipment (Note 7)		190,435		641,393
Total Assets	$	9,516,914	$	9,717,538
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	526,029	$	511,395
Current portion of lease liability (Note 8)		11,515		94,303
Current portion of decommissioning obligation (Note 9)		311,218		388,629
Canada Emergency Business Account loan (Note 10)		40,000		40,000
		888,762		1,034,327
Decommissioning obligation (Note 9)		69,091		77,897
Total Liabilities		957,853		1,112,224
Shareholders’ Equity				
Share capital (Note 11)		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated other comprehensive income		476,903		22,283
Accumulated deficit		(13,627,045)		(13,126,172)
Total Shareholders' Equity		8,559,061		8,605,314
Total Liabilities and Shareholders' Equity	$	9,516,914	$	9,717,538

Subsequent event (Note 17)

Approved on behalf of the Board:

(Signed) “*Panwen Gao*”, Director

(Signed) “*Songxian Tan*”, Director

See the accompanying notes to these consolidated financial statements.

Capitan Investment Ltd.
Consolidated Statements of Loss and Comprehensive Loss
(in Canadian dollars)

For the years ended December 31		2022		2021
Revenue				
Return on investments (Note 5)	$	650,979	$	208,885
Expenses				
General and administrative		641,154		752,836
Depreciation (Note 7)		125,667		103,483
Imputed interest (Note 8)		5,622		10,464
Foreign exchange		(831)		(67,506)
		771,612		799,277
Loss from operating activities		(120,633)		(590,392)
Interest income		20,892		3,652
Gain on disposition of property and equipment (Note 7)		-		29,352
Net loss from oil and gas operations (Note 12)		(362,045)		(1,156,765)
Loss before tax		(461,786)		(1,714,153)
Tax expense (Note 14)		39,087		-
Net loss		(500,873)		(1,714,153)
Exchange differences on translation of subsidiary		454,620		22,283
Comprehensive loss	$	(46,253)	$	(1,691,870)
Net loss per share - basic	$	(0.00)	$	(0.01)
Weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these consolidated financial statements.

Capitan Investment Ltd.
Consolidated Statements of Changes in Equity
(in Canadian dollars)

For the years ended December 31		2022		2021
Share capital				
289,684,072 common shares issued and outstanding				
Balance, beginning and end of year	$	20,465,084	$	20,465,084
Contributed surplus				
Balance, beginning and end of year		1,244,119		1,244,119
Accumulated other comprehensive income				
Balance, beginning of year		22,283		-
Exchange differences on translation of subsidiary		454,620		22,283
Balance, end of year		476,903		22,283
Accumulated deficit				
Balance, beginning of year		(13,126,172)		(11,412,019)
Net loss		(500,873)		(1,714,153)
Balance, end of year		(13,627,045)		(13,126,172)
Total Shareholders' Equity	$	8,559,061	$	8,605,314

See the accompanying notes to these consolidated financial statements.

Capitan Investment Ltd.
Consolidated Statements of Cash Flows
(in Canadian dollars)

For the years ended December 31		2022		2021
Operating activities				
Net loss	$	(500,873)	$	(1,714,153)
Add back (deduct) non-cash items:				
Depletion and depreciation (Note 7)		183,588		190,781
Impairment of property and equipment (Note 7)		318,000		1,054,000
Loss on disposition of property and equipment (Note 7)		-		(12,934)
Imputed interest (Note 8)		5,622		10,464
Accretion (Note 9)		4,271		2,828
Foreign exchange		7,852		(80,643)
Abandonment expenditures (Note 9)		(95,883)		(7,468)
Change in non-cash working capital				
Accounts receivable		(162,917)		(58,435)
Prepaid expenses and deposits		370		24,416
Trade and other payables		14,634		65,540
Cash flows used in operating activities		(225,336)		(525,604)
Financing activities				
Lease payments (Note 8)		(133,782)		(104,947)
Cash flows used in financing activities		(133,782)		(104,947)
Investing activities				
Term deposit proceeds		-		7,671,667
Purchase of investments (Note 5)		-		(6,303,500)
Proceeds from disposition of property and equipment (Note 7)		-		74,550
Cash flows provided by investing activities		-		1,442,717
Change in cash		(359,118)		812,166
Foreign exchange effect of USD denominated cash		13,905		67,506
Cash, beginning of year		1,997,996		1,118,324
Cash, end of year	$	1,652,783	$	1,997,996

See the accompanying notes to these consolidated financial statements.

1. Nature of Operations

Capitan Investment Ltd. ("Capitan" or the "Company") was incorporated under the Business Corporations Act (Alberta) and changed its name from Sahara Energy Ltd. to Capitan on December 17, 2021. The Company's primary business is investment in real estate development projects. The Company is listed on the TSX Venture Exchange under the trading symbol CAI. The Company's registered address is 400, 444 – 7th Avenue SW, Calgary, Alberta.

Capitan incorporated a wholly-owned subsidiary, GC Capital Holdings Inc. ("GC Capital"), a Delaware business corporation in the United States, on January 20, 2021.

As at December 31, 2022, JK Investment (Hong Kong) Co., Limited ("JK Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee in effect at January 1, 2022.

These consolidated financial statements were authorized for issue by the Board of Directors on April 28, 2023.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value.

The methods used to measure fair values are discussed in Note 4.

(c) Functional and presentation currency

The functional currency of Capitan is the Canadian dollar ("CAD"), the functional currency of GC Capital is the United States dollar ("USD"). The presentation currency of the Company is the CAD.

(d) Use of judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from estimated amounts. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

<u>Critical judgments in applying accounting policies</u>

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Credit risk

Judgments are required to assess credit risk and the recoverability of accounts receivable and investments, including the ability of the investee to repay the principal amount of the Investment upon Company's notice of redemption based on financial and non-financial information about the investee.

Cash-generating units

The Company's assets are aggregated into a single cash-generating unit ("CGU") for the purpose of calculating impairment. CGUs are based on an assessment of a unit's ability to generate independent cash inflows. The determination of the Company's CGU was based on management's judgment in regards to shared infrastructure, geographical proximity, exposure to market risk and materiality.

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

Incremental borrowing rates for leases and lease terms

The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term. In addition, lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Provisions

Judgments are required to assess the existence of obligations requiring a probable outflow of funds to settle the obligation and the requirement to recognize a related provision.

Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Contingencies

Judgments are made by management to determine the existence of contingencies and the outcome of future events.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Valuation of accounts receivable

The allowance for expected credit losses assessment requires a degree of estimation and judgment. It is based on the number of days overdue, and makes assumptions to allocate an overall expected credit loss rate for each aging category. These assumptions include historical collection and non-payments.

Recoverability of asset carrying values

The recoverability of development and production ("D&P") asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

- Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory

levels, exchange rates, weather, and economic and geopolitical factors.

- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable oil and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Decommissioning obligation

The amount recorded for the decommissioning obligation and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management must make estimates of amounts related to the outcome of future events.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intercompany balances and transactions are eliminated in full upon consolidation.

(b) Foreign currencies

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in the consolidated statement of loss and comprehensive loss in the period in which they arise.

The financial results of operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange at the reporting date. Differences arising on translation are recognized as other comprehensive income (loss).

(c) Financial instruments

The Company classifies its financial instruments in the following measurement categories:

- subsequently measured at fair value (either through profit or loss ("FVPTL") or other comprehensive income ("FVOCI"); and
- subsequently measured at amortized cost.

The classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, accounts receivable, investments, deposits, trade and other payables and the Canada Emergency Business Account loan. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in the consolidated statement of loss and comprehensive loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

  Financial assets at FVTPL are measured at fair value, and changes therein are recognized in the consolidated statement of loss and comprehensive loss. A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses in the consolidated statement of loss and comprehensive loss upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

  A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

  Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

  A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is re-measured based on the new cash flows and a gain or loss is recorded in net earnings.

- Financial assets at FVOCI

Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

The Company classifies cash, term deposits, investments, deposits, trade and other payables and the Canada Emergency Business Account loan as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in the consolidated statement of loss and comprehensive loss. Impairment losses are presented as separate line item in the consolidated statement of loss and comprehensive loss.

Derivative financial instruments

The Company has not entered into any financial derivative contracts.

(d) Impairment of financial instruments

The Company assesses, on a forward looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(e) Cash

Cash consists of cash deposits held in Canadian banks.

(f) Investments

Investments consist of short-term investments that the Company intends to hold for a period of not greater than 12 months from the consolidated statement of financial position date.

(g) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity.

(h) Jointly controlled operations and jointly controlled assets

The Company's petroleum and natural gas D&P activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company’s assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements structured through joint venture arrangements.

(i) Property and equipment

(i) Recognition and measurement

D&P costs

Property and equipment, which includes oil and gas D&P assets, are initially measured at cost and subsequently carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

The cost of D&P assets includes: the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

D&P assets are grouped into CGUs for impairment testing.

When significant parts of an item of property and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the consolidated statement of loss and comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of loss and comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of periodic servicing of property and equipment are recognized in operating expenses as incurred.

(iii) Depletion and depreciation

The net carrying value of D&P assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators, in accordance with Canadian Securities Administration National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of furniture and equipment is based on estimated useful lives and is calculated using the declining balance method at rates ranging from 20% - 45%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(j) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value-in-use, using discounted cash flows.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs of disposal of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value-in-use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value-in-use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the consolidated statement of loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date, if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(k) Decommissioning obligation

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

The Company's decommissioning obligation is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date at a risk-free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, revisions to the amount of the original estimate, changes in the discount rate or risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and other assumptions are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(l) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

The Company has applied the practical expedients for short-term and low value leases whereby related lease payments are recognized as expenses in the period incurred.

(m) Government assistance

In response to the COVID-19 pandemic, governments established various programs to assist companies through this period of uncertainty. The Company recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the government assistance and that the government assistance will be received.

The Company recognizes the government assistance received under the Canada Emergency Wage Subsidy (“CEWS”) program in the consolidated statement of loss and comprehensive loss in the period in which the government assistance is earned.

The Company recognizes government assistance received under the Canada Emergency Business Account (“CEBA”) program as debt in the consolidated statement of financial position. A portion of the CEBA loan may be forgivable if certain criteria are met. The Company will not recognize the forgivable portion of the CEBA loan as income until reasonable assurance of forgiveness has been obtained.

(n) Revenue recognition

The Company recognizes return on investment revenue as it accrues in the consolidated statement of loss, using the effective interest method if and when appropriate.

The Company recognizes revenue from the sale of oil when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon. Sales of oil are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(o) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on the decommissioning obligation and impairment losses recognized on financial assets. Interest income is recognized as it accrues in the consolidated statement of loss and comprehensive loss, using the effective interest method.

(p) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of loss and comprehensive 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 the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the 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. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(q) Per share amounts

Basic per share amounts are calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

(r) Amended standards not yet adopted

The Company has reviewed amended accounting pronouncements that have been issued but are not yet effective and determined that the following pronouncements may impact the Company:

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2023, amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. Further amendments require that companies disclose its material accounting policies rather than its significant accounting policies and explain how a company can identify material accounting policies.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2023, amendments to IAS 8 replace the definition of a change in accounting estimate with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendments clarify that a change in an accounting estimate that results from new information or new developments is not the correction of an error.

Amendments to IAS 12 Income Taxes

Effective January 1, 2023, amendments to IAS 12 relate to deferred tax assets and liabilities arising from a single transaction and clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

4. Determination of Fair Values

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Financial instruments

The Company determines 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 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, 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 fair value of cash, accounts receivable, investments, deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2022 and 2021, the fair value of these balances approximated their carrying value due to their short term to maturity.

The fair value of the CEBA loan is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2022, the fair value of the CEBA loan approximates its carrying value as the Company expects to repay the loan prior to the requirement to accrue and pay interest on the outstanding balance.

(b) Non-financial assets

The fair value of property and equipment is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The fair value of other items of property and equipment is based on the quoted market prices for similar items.

5. Investments

On August 31, 2021, the Company, through GC Capital, entered into two Investment Agreements with DMG Investments LLC. ("DMG"), a comprehensive real estate company specializing in finance, development, operations and property management in the United States.

Under the terms of the Investment Agreements, the Company invested a total of $6,303,500 (USD 5,000,000) comprised of $2,521,400 (USD 2,000,000) in a joint venture real estate investment as a non-managing member in exchange for a preferred equity interest representing approximately 15.56% of the total equity interest in the Air Albany Project and $3,782,100 (USD 3,000,000) in a joint venture real estate investment as a non-managing member in exchange for a preferred equity interest representing approximately 21.85% of the total equity interest in the Auden Project. The Air Albany Project and the Auden Project are collectively referred to as "the Projects" and/or "the Investments", and each an "Investment".

The Investments are each subject to, among others, the following terms and conditions:

- the Company is guaranteed a 10% preferred return on its Investment within 12 months of its initial investment, with the payment of return amounts being made at the end of the first quarter following its initial investment and at the end of the fourth quarter following initial investment;
- in the event that a material event of default by DMG occurs, the Company will be entitled to a 15% return on its Investment;

(in Canadian dollars)

- during the period of the Investment there will be no dilution of the Company's preferred equity position;
- the Company will retain voting rights in relation to major actions proposed by DMG in respect of the Projects;
- the Company will retain an unconditional option to require the cash payment of its guaranteed return and the cash repurchase of all or part of its equity interest after an initial 12 month period or, in lieu of full repayment, upon the Company giving three months prior notice to DMG, the Company will continue to hold its position for up to an additional 12 months;
- the 10% return and repurchase option granted to the Company in connection with its Investment is guaranteed by DMG; and
- the Company has certain exit options in the event of a material default in the Projects and upon the occurrence of a material adverse change in the condition of DMG.

In May 2022, the Company gave notice to DMG that the Company will continue to hold its position until notice of redemption is given on or before August 31, 2023.

The December 31, 2022 carrying value of the Investments is $6,772,000 (USD 5,000,000) (2021 – $6,339,000 (USD 5,000,000)). The fair value of the Investments approximates their carrying value as the Company does not expect to hold the Investments for longer than 12 months.

6. Accounts Receivable

		2022		2021
Goods and Services Tax	$	2,115	$	4,473
Return on investment (Note 5)		226,352		53,838
Oil and gas marketers (Note 12)		12,340		9,310
Canada Emergency Wage Subsidy (Note 13(a))		–		6,413
Other		–		3,856
	$	240,807	$	77,890

The Company’s accounts receivable are aged as follows:

		2022		2021
Less than 60 days old	$	185,147	$	77,890
Over 60 days old		55,660		–
	$	240,807	$	77,890

Receivables for Goods and Services Tax (“GST”) are typically collected within 30 days of filing the related GST return and are include in the less than 60 days aging category.

Receivables for the Company’s return on investment are accrued on a quarterly basis and are typically collected within 60 days with the exception of $55,660 included in the over 60 day aging category.

Receivables from oil and gas marketers are typically collected on the 25th day of the month following production and are include in the less than 60 days aging category.

The Company historically has not experienced any significant collection issues for accounts receivable (Note 15(b)).

(in Canadian dollars)

7. Property and Equipment

	Right-of-use asset	Furniture and equipment	D&P assets	Total
Cost				
Balance, December 31, 2020	$ –	$ 217,798	$ 4,705,376	$ 4,923,174
Additions (Note 8)	189,793	–	–	189,793
Decommissioning revisions (Note 9)	–	–	188,970	188,970
Dispositions	–	(146,848)	(362,714)	(509,562)
Foreign exchange	255	–	–	255
Balance, December 31, 2021	190,048	70,950	4,531,632	4,792,630
Lease revisions (Note 8)	43,367	–	–	43,367
Decommissioning revisions (Note 9)	–	–	5,395	5,395
Foreign exchange	13,698	–	–	13,698
Balance, December 31, 2022	247,113	70,950	4,537,027	4,855,090
Accumulated depletion and depreciation				
Balance, December 31, 2020	$ –	$ 195,940	$ 3,083,920	$ 3,279,860
Depletion and depreciation	98,687	4,796	87,298	190,781
Impairment	–	–	1,054,000	1,054,000
Dispositions	–	(136,400)	(238,346)	(374,746)
Foreign exchange	1,342	–	–	1,342
Balance, December 31, 2021	$ 100,029	$ 64,336	$ 3,986,872	$ 4,151,237
Depletion and depreciation	124,296	1,371	57,921	183,588
Impairment	–	–	318,000	318,000
Foreign exchange	11,830	–	–	11,830
Balance, December 31, 2022	$ 236,155	$ 65,707	$ 4,362,793	$ 4,664,655
Net carrying amount				
As at December 31, 2021	$ 90,019	$ 6,614	$ 544,760	$ 641,393
As at December 31, 2022	$ 10,958	$ 5,243	$ 174,234	$ 190,435

Right-of-use asset:

The Company has recognized a right-of-use asset and corresponding lease liability (Note 8) related to office premises. The ROU asset is depreciated on a straight-line basis over the term of the related lease.

Dispositions:

In July 2021, the Company disposed of certain development and production assets with an estimated net carrying amount of $124,368 and a related decommissioning provision of $73,200 for $34,750 of cash proceeds, resulting in the recognition of a $16,418 loss on disposition of D&P assets (Note 12).

In October 2021, the Company disposed of two vehicles with and estimated net carrying amount of $10,448 for $39,800 of cash proceeds, resulting in the recognition of a $29,352 gain on disposition of property and equipment.

(in Canadian dollars)

Depletion:

The calculation of 2022 depletion expense included an estimated $nil (2021 – $nil) for future development costs associated with proved plus probable reserves. The Company has not capitalized any directly attributable general and administrative expenses to D&P assets.

Impairment:

During 2022 and 2021, the Company identified the decrease in the Company's proved plus probable reserves, termination of future development plans and a decline in forecast price estimates as indicators of impairment in relation to its CGU and performed an impairment test at December 31, 2022 and 2021.

At December 31, 2022, the estimated recoverable amount of the CGU based on its value-in-use was determined to be $318,000 lower than the December 31, 2022 carrying amount based on 20% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the externally prepared December 31, 2022 reserve report.

At December 31, 2021, the estimated recoverable amount of the CGU based on its value-in-use was determined to be $1,054,000 lower than the December 31, 2021 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the externally prepared December 31, 2021 reserve report.

During 2022, the Company recognized $318,000 (2021 – $1,054,000) of impairment in the consolidated statement of loss and comprehensive loss. Impairment of property and equipment may be reversed in future periods if there are indicators of reversal, such as an improvement in commodity price forecasts.

A 1% change in the discount rate would result in a $1,000 (2021 – $4,000) change in impairment. A 5% change in commodity prices would result in a $55,000 (2021 – $17,000) change in impairment.

The 2022 and 2021 impairment tests used the following commodity price estimates:

	December 31, 2022	December 31, 2021
	Cdn$/bbl	Cdn$/bbl
2022	n/a	71.45
2023	70.44	68.92
2024	67.74	67.40
2025	63.21	68.81
2026	64.76	70.24
2027	66.35	71.71
2028	67.96	73.20
2029	69.61	74.72

8. Lease Liability

The Company incurs lease payments related to office premises.

	2022		2021
Balance, beginning of year	94,303	$	–
Addition	–		189,793
Lease revisions	43,367		–
Imputed interest	5,622		10,464
Lease payments	(133,782)		(104,947)
Foreign exchange	2,005		(1,007)
Balance, end of year	11,515	$	94,303

(in Canadian dollars)

The lease liability for the office premise was determined using an incremental borrowing rate of 10% and an original lease term of 19 months which was extended for an additional four months in 2022. As at December 31, 2022, the remaining expected payments under the Company's office lease agreement are as follows:

	Monthly USD	Monthly CAD	Total CAD
January 2023	$ 8,565	$ 11,600	$ 11,600

9. Decommissioning Obligation

As at December 31, 2022, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be $405,555 (2021 – $480,761). This amount will be substantially incurred over the next year (2021 – 2 years). The Company calculated the decommissioning liabilities using an average risk-free discount rate of 4.01% (2021 – 0.97%) per annum and a future inflation rate of 2% (2021 – 2%) per annum.

		2022		2021
Balance, beginning of year	$	466,526	$	355,396
Accretion		4,271		2,828
Revisions		5,395		188,970
Disposition (Note 7)		–		(73,200)
Expenditures		(95,883)		(7,468)
Balance, end of year		380,309		466,526
Current portion		(69,091)		(388,629)
Long-term portion	$	311,218	$	77,897

10. Canada Emergency Business Account ("CEBA") Loan

On April 29, 2020, the Company received $40,000 of loan proceeds from a Canadian bank pursuant to the CEBA program, a Government of Canada COVID response program designed to assist companies with the payment of non-deferrable operating expenses during shutdowns and economic strain related to the COVID-19 pandemic.

The CEBA loan matures on December 31, 2025. Interest will accrue on the outstanding balance of the CEBA loan at a rate of 5% per annum commencing January 1, 2024. The outstanding balance of the CEBA loan plus accrued interest is payable on the maturity date. 25% of the CEBA loan amount shall be forgiven if the remaining 75% of the loan is repaid on or before December 31, 2023. The Company expects to repay the loan on or before December 31, 2023.

11. Share Capital

a) Authorized

Unlimited number of common voting shares with no par value
Unlimited number of preferred non-voting shares with no par value

b) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2020, 2021 and 2022	289,684,072	$	20,465,084

(in Canadian dollars)

12. Oil and Gas Operations

		2022		2021
Crude oil sales	$	186,243	$	130,087
Royalties		(8,062)		(5,326)
		178,181		124,761
Production and operating expenses		(160,034)		(120,982)
Depletion (Note 7)		(57,921)		(87,298)
Impairment of D&P assets (Note 7)		(318,000)		(1,054,000)
Loss on disposition of D&P assets (Note 7)		–		(16,418)
Accretion (Note 9)		(4,271)		(2,828)
Net loss from oil and gas operations	$	(362,045)	$	(1,156,765)

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

Composition of oil sales revenue:

		2022		2021
Light-medium oil (non-operated)	$	–	$	33,799
Heavy oil (operated)		186,243		96,288
	$	186,243	$	130,087

All light-medium oil sales revenues were earned from one working interest partner (the property operator).

As at December 31, 2022, accounts receivable (Note 6) included $12,340 from an oil and gas marketer (December 31, 2021 – $8,710) and $nil from working interest partners (December 31, 2021 – $600).

13. Personnel expenses

(a) Canada Emergency Wage Subsidy (“CEWS”)

CEWS is a Government of Canada COVID response program designed to assist companies with the re-hiring of workers and job loss prevention during shutdowns and economic strain related to the COVID-19 pandemic. The program was terminated in October 2021. During 2021, the Company applied for $33,350 in wage subsidies under the CEWS program. Amounts applied for under the CEWS program are recorded as an offset to employee compensation expense included in general and administrative expenses. As at December 31, 2021, $6,413 was included in accounts receivable in respect of CEWS.

(b) Employee compensation cost

The consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2022, the Company incurred $376,522 (2021 – $308,316) of employee compensation cost, excluding CEWS, which is included in general and administrative expenses.

(c) Key management compensation

The Company considers its directors and executives to be key management personnel. As at December 31, 2022, key management personnel included 14 individuals (2021 – 13 individuals).

(in Canadian dollars)

Key management personnel compensation is comprised of the following:

		2022		2021
Salaries paid to two executives (2021 – two)	$	184,936	$	169,086
CEWS		–		(25,481)
Consulting fees paid to three directors (2021 – two)		74,652		14,871
Short-term employee benefits		30,158		20,443
	$	289,746	$	178,919

14. Taxes

The provision for deferred taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

		2022		2021
Loss before income taxes	$	(461,786)	$	(1,714,153)
Combined federal and provincial statutory income tax rate		23.00%		23.00%
Expected income tax reduction		(106,210)		(394,255)
Non-deductible items		104,726		4,913
Rate adjustments		13,450		(8,321)
Effect of unrecognized deferred tax assets		27,121		397,663
Current tax expense	$	39,087	$	–

Current tax expense is in respect of GC Capital's taxable income.

The following table summarizes the components of deferred tax:

		2022		2021
Deferred tax assets				
Non-capital loss carryforwards	$	–	$	–
Deferred tax liabilities				
Property and equipment		–		–
	$	–	$	–

Deferred tax assets result from temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

		2022		2021
Non-capital loss carryforwards	$	16,648,234	$	16,717,578
Property and equipment		1,973,214		1,658,042
Reorganization costs		62,013		66,681
Decommissioning obligation		380,309		466,526
Other		175,631		175,631
	$	19,239,401	$	19,084,458

As at December 31, 2022, the Company has approximately $2.3 million (2021 – $2.3 million) of tax pools available for deduction against future taxable income. The Company also has Canadian non-capital tax losses of approximately $16.7 million (2021 – $16.6 million) available for deduction against future taxable income that begin to expire in 2028 and approximately $nil (2021 – $0.1 million) of U.S. tax losses that do not expire.

15. Financial instruments

The Company holds various financial instruments as at December 31, 2022. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

(a) Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

(i) Commodity price risk
Due to the volatility of commodity prices, the Company is exposed to adverse consequences in the event of declining prices. The Company did not enter into any oil price contracts to protect its cash flow on future sales in 2022 or 2021. A 5% change in the average commodity price earned by the Company would change oil sales revenue and net loss and comprehensive loss for 2022 by approximately $9,300 (2021 – $6,500).

(ii) Foreign currency exchange risk
The return earned on investments (Note 5) is denominated in USD. A 5% change in the exchange rate of USD to CAD would change return on investment income and net loss and comprehensive loss for 2022 by approximately $32,500 (2021 – $10,500).

Although all of the Company's oil sales are denominated in CAD, the underlying market prices for oil are impacted by the exchange rate of USD to CAD. As at December 31, 2022 and 2021, the Company had no forward foreign exchange contracts in place.

(iii) Interest rate risk
The Company does not have any investments or debt subject to floating rates and is therefore not exposed to fluctuations in the market rate of interest.

(b) Credit risk

Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners.

Cash is held with highly-rated banks in Canada and China. Therefore, the Company does not believe these financial instruments are subject to material credit risk.

Company has assessed credit risk with respect to the Investments and has determined that there is no material credit risk based on the Company's review of financial and non-financial information for DMG and the Projects. The 10% return on the Investments and the redemption of the Investments is guaranteed by DMG (Note 5).

Accounts receivable credit risk is discussed in Note 6.

(in Canadian dollars)

The maximum exposure to credit risk at is as follows:

		2022		2021
Cash and cash equivalents	$	1,652,783	$	1,997,996
Investments (Note 5)		6,772,000		6,339,000
Accounts receivable (Note 6)		240,807		77,890
	$	8,665,590	$	8,414,886

During 2022, the Company recognized $5,183 (2021 – $nil) of bad debt expense included in general and administrative expenses for the write-off of old unclaimed GST credits.

(c) Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. Historically, the Company has suffered substantial operating losses. As at December 31, 2022, the Company has a working capital surplus of $8,476,706 (2021 – $8,041,818). The Company has sufficient cash resources to ensure the contractual amounts of its financial obligations, comprised of $487,040 of trade and other payables, $11,515 of lease liability and the $40,000 CEBA loan, are met as they become due.

16. Capital disclosures

The Company considers its capital structure to include working capital and shareholders' equity. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares and/or adjusting its capital spending. The Company monitors its capital based on the current and projected ratios of net debt to cash flow. The Company's objectives in managing its capital structure are to create and maintain flexibility so that the Company can continue to meet its financial obligations; and finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

		2022		2021
Working capital	$	8,437,717	$	8,041,818
Shareholders' equity	$	8,559,061	$	8,605,314

The Company does not have any externally imposed capital requirements as at December 31, 2022.

17. Subsequent event

In January 2023, the Company entered into a lease agreement for office space at a new location commencing in February 2023 and ending in February 2026 and is committed to the following annual lease payments:

	Annual USD	Annual CAD
2023	$ 98,413	$ 113,291
2024	110,312	149,407
2025	113,662	153,889
2026	19,268	26,096