Capitan Investment Ltd.

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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, 2023 and December 31, 2022, 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 material 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, 2023 and December 31, 2022, 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 receivable

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 $6.6 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.

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 29, 2024

Chartered Professional Accountants

Capitan Investment Ltd.
Consolidated Statements of Financial Position
As at December 31
(in Canadian dollars)

	Note	2023	2022
Assets			
Current assets:			
Cash		$ 893,194	$ 1,652,783
Restricted cash		20,000	–
Investments	5	6,613,000	6,772,000
Accounts receivable	6	255,295	240,807
Prepaid expenses and deposits		823,245	660,889
		8,604,734	9,326,479
Property and equipment	7	320,564	190,435
Total assets		$ 8,925,298	$ 9,516,914
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		$ 510,195	$ 526,029
Current portion of lease liabilities	8	166,517	11,515
Current portion of decommissioning obligation	9	162,406	311,218
CEBA loan	10	–	40,000
		839,118	888,762
Lease liabilities	8	164,460	–
Decommissioning obligations	9	547,527	69,091
Total liabilities		1,551,105	957,853
Shareholders' equity			
Share capital	11	20,465,084	20,465,084
Contributed surplus		1,244,119	1,244,119
Accumulated other comprehensive income		314,854	476,903
Accumulated deficit		(14,649,864)	(13,627,045)
Total shareholders' equity		7,374,193	8,559,061
Total liabilities and shareholders' equity		$ 8,925,298	$ 9,516,914

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
For the years ended December 31
(in Canadian dollars)

	Note		2023		2022
Revenue					
Return on investments	5	$	674,879	$	650,979
Expenses					
General and administrative	14		855,454		641,154
Depreciation	7		138,677		125,667
Imputed interest	8		35,725		5,622
Foreign exchange			6,671		(831)
			1,036,527		771,612
Loss from operating activities			(361,648)		(120,633)
Interest income			32,416		20,892
Gain on loan extinguishment	10		10,000		–
Net loss from oil and gas operations	12		(703,587)		(362,045)
Loss before taxes			(1,022,819)		(461,786)
Tax expense	15		–		39,087
Net loss			(1,022,819)		(500,873)
Other comprehensive income (loss)					
Exchange differences on translation of subsidiary			(162,049)		454,620
Total comprehensive loss		$	(1,184,868)	$	(46,253)
Net loss per share - basic		$	(0.00)	$	(0.00)
Weighted average number of 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
For the years ended December 31
(in Canadian dollars)

	Note	2023	2022
Share capital			
Balance, January 1 and December 31	11	$ 20,465,084	$ 20,465,084
Contributed surplus			
Balance, January 1 and December 31		1,244,119	1,244,119
Accumulated other comprehensive loss			
Balance, January 1		476,903	22,283
Exchange differences on translation of subsidiary		(162,049)	454,620
Balance, December 31		314,854	476,903
Accumulated deficit			
Balance, January 1		(13,627,045)	(13,126,172)
Net loss		(1,022,819)	(500,873)
Balance, December 31		(14,649,864)	(13,627,045)
Total shareholders' equity		$ 7,374,193	$ 8,559,061

See the accompanying notes to these consolidated financial statements.

Capitan Investment Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31
(in Canadian dollars)

	Note	2023	2022
Operating activities			
Net loss		$ (1,022,819)	$ (500,873)
Items not affecting cash:			
Depletion and depreciation	7	152,879	183,588
Impairment	7	579,153	318,000
Imputed interest	8	35,725	5,622
Lease revision	8	(11,499)	–
Accretion of decommissioning obligation	9	12,666	4,271
Loss on decommissioning obligation	9	29,000	–
Gain in loan extinguishment	10	(10,000)	–
Foreign exchange		629	7,852
Decommissioning expenditures	9	(131,163)	(95,883)
Change in non-cash working capital			
Accounts receivable		(14,488)	(162,917)
Prepaid expenses and deposits		(162,356)	370
Trade and other payables		(15,834)	14,634
Net cash used in operating activities		(558,107)	(225,336)
Financing activities			
Lease payments	8	(147,538)	(133,782)
Repayment of CEBA loan	10	(30,000)	–
Net cash used in financing activities		(177,538)	(133,782)
Investing activities			
Restricted cash		(20,000)	–
Net cash used in investing activities		(20,000)	–
Change in cash		(755,645)	(359,118)
Foreign exchange effect on USD denominated cash		(3,944)	13,905
Cash, January 1		1,652,783	1,997,996
Cash, December 31		$ 893,194	$ 1,652,783

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, 2023, 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, 2023.

These consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2024.

(b) Adoption of amended accounting standards

The Company adopted the following amendments to IFRS accounting standards issued by the IASB that are mandatorily effective for accounting periods beginning on or after January 1, 2023. Their adoption has not had a material impact on disclosures or amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements

Amendments to IAS 1 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

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

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.

(c) 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.

(d) 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.

(e) 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.

Critical judgments in applying accounting policies

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

Expected credit loss

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 regard 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.

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.

3. Material Accounting Policies

An accounting policy is considered material to the Company if it provides information to facilitate the understanding of other material information reported and disclosed in the Company's consolidated financial statements. Accounting policy information may be material because of the nature of the related transactions, other events, or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The material 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 and trade and other payables. 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, all of the Company's non-derivative financial instruments are measured as described below:

- Financial instruments at amortized cost

  All of the Company's non-derivative financial instruments are classified 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) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that the following amendments are applicable to the Company but are not expected to have a material impact:

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2024, amendments to IAS 1 clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability as current or non-current.

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.

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, 2023 and 2022, the fair value of these balances approximated their carrying value due to their short term to maturity.

(in Canadian dollars)

5. Investments

In August 2021, the Company 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: (1) a USD 2,000,000 investment 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 (2) a USD 3,000,000 investment 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 Investments".

The Company has unconditional option to require the cash payment of its 10% guaranteed return on the Investments 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 may continue to hold its position for up to an additional 12 months, to August 31, 2023. The 10% return and repurchase option granted to the Company in connection with the Investments is guaranteed by DMG.

The Company provided written notice to extend its position in the Investments until May 15, 2024, during which time the Company will continue to earn a 10% return. During 2023, the Company earned $674,879 (2022 – $650,979) of return on investment revenue.

The December 31, 2023 carrying value of the Investments is $6,613,000 (USD 5,000,000) (December 31, 2022 – $6,772,000 (USD 5,000,000)). The fair value of the Investments approximates the carrying value due to the short period to the extended expected redemption date in May 2024.

6. Accounts Receivable

		2023		2022
Goods and Services Tax	$	3,458	$	2,115
Return on investment (Note 5)		221,037		226,352
Oil and gas marketers (Note 12)		30,800		12,340
	$	255,295	$	240,807

The Company's accounts receivable are aged as follows:

		2023		2022
Less than 60 days old	$	144,777	$	185,147
Over 60 days old		110,518		55,660
	$	255,295	$	240,807

Receivables for Goods and Services Tax ("GST") are typically collected within 30 days of filing the related GST return and are included 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 except for $110,518 included in the over 60-day 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 assets	Furniture and equipment	D&P assets	Total
Cost				
Balance, December 31, 2021	$ 190,048	$ 70,950	$ 4,531,632	$ 4,792,630
Additions (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
Lease additions (Note 8)	444,422	–	–	444,422
Expired lease (Note 8)	(243,044)	–	–	(243,044)
Decommissioning revisions (Note 9)	–	–	419,121	419,121
Foreign exchange	(8,060)	–	–	(8,060)
Balance, December 31, 2023	$ 440,431	$ 70,950	$ 4,956,148	$ 5,467,529
Accumulated depletion and depreciation				
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
Depletion and depreciation	137,602	1,075	14,202	152,879
Impairment	–	–	579,153	579,153
Expired lease (Note 8)	(243,044)	–	–	(243,044)
Foreign exchange	(6,678)	–	–	(6,678)
Balance, December 31, 2023	$ 124,035	$ 66,782	$ 4,956,148	$ 5,146,965
Net carrying amount				
As at December 31, 2022	$ 10,958	$ 5,243	$ 174,234	$ 190,435
As at December 31, 2023	$ 316,396	$ 4,168	$ –	$ 320,564

Right-of-use asset:

The Company has de-recognized a right-of-use ("ROU") asset and related accumulated depreciation for an office lease that expired in January 2023, and recognized a ROU asset and corresponding lease liability for two new office leases (Note 8). The ROU asset is depreciated on a straight-line basis over the term of the related lease.

Depletion and depreciation:

During 2023, the Company recognized $138,677 (2022 – $125,667) of depreciation expense for ROU assets and furniture and equipment in the loss from operating activities and $14,202 (2022 – $57,921) of depletion expense in net loss from oil and gas operations (Note 12).

The calculation of 2023 depletion expense included an estimated $nil (2022 – $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.

(in Canadian dollars)

Impairment:

During 2023 and 2022, 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, 2023 and 2022.

At December 31, 2023, the estimated recoverable amount of the CGU based on its value-in-use was determined to be $nil based as the after-tax cash flows expected to be derived from the CGU's proved plus probable reserves are net cash outflows such that the carrying amount of the CGU is not recoverable.

During 2023, the Company recognized $579,153 (2022 – $318,000) 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.

8. Lease Liability

The Company incurs lease payments related to office premises.

		2023		2022
Balance, beginning of year	$	11,515	$	94,303
Lease revisions		(11,499)		43,367
Lease additions		444,422		–
Imputed interest		35,725		5,622
Lease payments		(147,538)		(133,782)
Foreign exchange		(1,648)		2,005
Balance, end of year	$	330,977	$	11,515
Current portion		(166,517)		(11,515)
Long-term portion		164,460		–

In January 2023, the Company signed a lease agreement for office space at a new location commencing in February 2023 and ending in February 2026. In September 2023, the Company signed a lease agreement for a satellite office location commencing in September 2023 and ending in November 2024. The lease liabilities and related ROU assets (Note 7) for the office premises was determined using an incremental borrowing rate of 12% and lease terms of 37 months and 14 months, respectively.

As at December 31, 2023, the remaining expected payments under the Company's office lease agreement are as follows:

	Annual USD	Annual CAD
2024	$ 149,573	$ 197,826
2025	113,662	150,276
2026	19,268	25,483

(in Canadian dollars)

9. Decommissioning Obligation

As at December 31, 2023, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be $831,744 (2022 – $405,555). This amount will be substantially incurred over the next four years (2022 – 1 year). The Company calculated the decommissioning liabilities using an average risk-free discount rate of 3.85% (2022 – 4.01%) per annum and a future inflation rate of 2% (2022 – 2%) per annum.

	2023	2022
Balance, beginning of year	$ 380,309	$ 466,526
Accretion	12,666	4,271
Revisions	419,121	5,395
Expenditures	(131,163)	(95,883)
Loss on settlement of decommissioning obligations	29,000	–
Balance, end of year	709,933	380,309
Current portion	(162,406)	(311,218)
Long-term portion	$ 547,527	$ 69,091

During 2023, the Company incurred $131,163 of decommissioning expenditures to settle $102,163 of obligations resulting in a $29,000 loss on settlement of decommissioning obligations (Note 12).

10. Canada Emergency Business Account (“CEBA”) Loan

In 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. 25% ($10,000) of the CEBA loan amount shall be forgiven if the remaining 75% ($30,000) of the loan is repaid on or before January 18, 2024. The Company repaid $30,000 of the loan in September 2023 and recognized a $10,000 gain on loan extinguishment at that time.

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, 2021, 2022 and 2023	289,684,072	$ 20,465,084

(in Canadian dollars)

12. Oil and Gas Operations

	2023	2022
Heavy oil sales	$ 42,332	$ 186,243
Royalties	(1,557)	(8,062)
	40,775	178,181
Production and operating expenses	(109,341)	(160,034)
Depletion (Note 7)	(14,202)	(57,921)
Impairment of D&P assets (Note 7)	(579,153)	(318,000)
Accretion (Note 9)	(12,666)	(4,271)
Loss on settlement of decommissioning obligations (Note 9)	(29,000)	–
Net loss from oil and gas operations	$ (703,587)	$ (362,045)

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.

All heavy oil sales revenues earned in 2023 and 2022 are from company-operated wells. As at December 31, 2023, accounts receivable (Note 6) included $30,800 from an oil and gas marketer (December 31, 2022 – $12,340).

13. Personnel Expenses

(a) Employee compensation cost

The consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2023, the Company incurred $372,713 (2022 – $376,522) of employee compensation cost which is included in general and administrative expenses.

(b) Key management compensation

The Company considers its directors and executives to be key management personnel. As at December 31, 2023, key management personnel included 13 individuals (2022 – 14 individuals). Key management personnel compensation is comprised of the following:

	2023	2022
Salaries paid to two executives (2022 – two)	$ 188,143	$ 184,936
Consulting fees paid to two directors (2022 – three)	90,704	74,652
Short-term employee benefits	29,305	30,158
	$ 308,152	$ 289,746

14. General and Administrative Expenses

	2023	2022
Salaries and benefits	$ 372,713	$ 376,522
Consulting and professional fees	399,893	181,694
Office and general	54,056	58,437
Shareholder and regulatory	18,593	24,501
Travel	10,199	–
	$ 855,454	$ 641,154

15. 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:

	2023	2022
Loss before income taxes	$ (1,022,819)	$ (461,786)
Combined federal and provincial statutory income tax rate	23.00%	23.00%
Expected income tax reduction	(235,248)	(106,210)
Non-deductible items	125,462	104,726
Rate adjustments	(860)	13,450
Effect of tax return filings	105,855	–
Effect of unrecognized deferred tax assets	4,791	27,121
Current tax expense	$ –	$ 39,087

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:

	2023	2022
Non-capital loss carry-forwards	$ 16,123,185	$ 16,648,234
Property and equipment	2,181,843	1,973,214
Reorganization costs	66,681	62,013
Decommissioning obligation	709,933	380,309
Other	175,631	175,631
	$ 19,257,273	$ 19,239,401

As at December 31, 2023, the Company has approximately $2.3 million (2022 – $2.3 million) of tax pools available for deduction against future taxable income. The Company also has Canadian non-capital tax losses of approximately $16.1 million (2022 – $16.7 million) available for deduction against future taxable income that begin to expire in 2028 and approximately $10,800 (2022 – $nil) of U.S. tax losses that do not expire.

16. Financial Instruments

The Company holds various financial instruments as at December 31, 2023. 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. The primary sources of market risk for the Company is foreign currency exchange risk. The objective of the Company is to mitigate exposure to this risk, while maximizing returns to the Company.

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 2023 by approximately $33,700 (2022 – $32,500).

(in Canadian dollars)

(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. Restricted cash in in respect of a letter of credit for a corporate credit card. The Company does not believe these financial instruments are subject to material credit risk.

The 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.

The maximum exposure to credit risk at is as follows:

		2023		2022
Cash	$	893,194	$	1,652,783
Restricted cash		20,000		–
Investments (Note 5)		6,613,000		6,772,000
Accounts receivable (Note 6)		255,295		240,807
	$	7,781,489	$	8,665,590

During 2023, the Company recognized $nil (2022 – $5,183) 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, 2023, the Company has a working capital surplus of $7,765,616 (2022 – $8,437,717). The Company has sufficient cash resources to ensure the contractual amounts of its financial obligations, comprised of $510,195 of trade and other payables and the $166,517 current portion of lease liabilities, are met as they become due.

17. 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.

		2023		2022
Working capital	$	7,765,616	$	8,437,717
Shareholders' equity	$	7,374,193	$	8,559,061

The Company does not have any externally imposed capital requirements as at December 31, 2023.