

**Capitan Investment Ltd.**

**Condensed Interim Consolidated Financial Statements**

**For the three and six months ended June 30, 2023**

(Unaudited – Prepared by Management)

## **Notice of No Auditor Review of Condensed Interim Financial Statements**

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In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim financial statements as at and for the three and six months ended June 30, 2023.

**Capitan Investment Ltd.**  
**Condensed Interim Consolidated Statements of Financial Position**  
(unaudited)  
(in Canadian dollars)

As at	June 30 2023	December 31 2022
<b>Assets</b>		
Current assets		
Cash	\$ 1,268,929	\$ 1,652,783
Investments (Note 3)	6,620,000	6,772,000
Accounts receivable (Note 4)	393,764	240,807
Prepaid expenses and deposits	701,595	660,889
	8,984,288	9,326,479
Property and equipment (Note 5)	505,339	190,435
<b>Total Assets</b>	<b>\$ 9,489,627</b>	<b>\$ 9,516,914</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade and other payables	\$ 497,327	\$ 526,029
Current portion of lease liability (Note 6)	112,805	11,515
Current portion of decommissioning obligations (Note 7)	215,045	311,218
Canada Emergency Business Account loan	40,000	40,000
	865,177	888,762
Lease liability	227,025	-
Decommissioning obligations (Note 7)	70,259	69,091
<b>Total Liabilities</b>	<b>1,162,461</b>	<b>957,853</b>
Shareholders' Equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated other comprehensive income	314,019	476,903
Accumulated deficit	(13,696,056)	(13,627,045)
<b>Total Shareholders' Equity</b>	<b>8,327,166</b>	<b>8,559,061</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 9,489,627</b>	<b>\$ 9,516,914</b>

See the accompanying notes to these condensed interim consolidated financial statements.

**Capitan Investment Ltd.****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

(unaudited)

(in Canadian dollars)

	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
<b>Revenue</b>				
Return on investments (Note 3)	\$ 167,390	\$ 159,209	\$ 334,130	\$ 315,315
<b>Expenses</b>				
General and administrative	152,866	155,454	281,474	298,424
Depreciation (Note 5)	31,737	30,574	64,079	60,888
Imputed interest (Note 6)	9,730	1,153	16,651	2,964
Foreign exchange	2,634	(380)	2,634	(191)
	196,967	186,801	364,838	362,085
<b>Loss from operating activities</b>	(29,577)	(27,592)	(30,708)	(46,770)
Interest income	7,832	-	15,096	-
Net loss from oil and gas operations (Note 8)	(36,617)	23,162	(53,399)	50,319
<b>Net loss</b>	(58,362)	(4,430)	(69,011)	3,549
Exchange differences on translation of subsidiary	(157,157)	200,368	(162,884)	105,956
<b>Comprehensive loss</b>	\$ (273,881)	\$ 195,938	\$ (231,895)	\$ 109,505
<b>Net loss per share - basic</b>	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00
Weighted average number of common shares outstanding	289,684,072	289,684,072	289,684,072	289,684,072

See the accompanying notes to these condensed interim consolidated financial statements.

**Capitan Investment Ltd.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
(unaudited)  
(in Canadian dollars)

For the six months ended June 30	2023	2022
<b>Share capital</b>		
289,684,072 common shares issued and outstanding		
Balance, beginning and end of period	\$ 20,465,084	\$ 20,465,084
<b>Contributed surplus</b>		
Balance, beginning and end of period	1,244,119	1,244,119
<b>Accumulated other comprehensive income</b>		
Balance, beginning of period	476,903	22,283
Exchange differences on translation of subsidiary	(162,884)	105,956
Balance, end of period	314,019	128,239
<b>Accumulated deficit</b>		
Balance, beginning of period	(13,627,045)	(13,126,172)
Net income (loss)	(69,011)	3,549
Balance, end of period	(13,696,056)	(13,122,623)
<b>Total Shareholders' Equity</b>	<b>\$ 8,327,166</b>	<b>\$ 8,714,819</b>

See the accompanying notes to these condensed interim consolidated financial statements.

**Capitan Investment Ltd.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(unaudited)  
(in Canadian dollars)

For the six months ended June 30	2023	2022
<b>Operating activities</b>		
Net income (loss)	\$ (69,011)	\$ 3,549
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 5)	68,652	94,475
Imputed interest (Note 6)	16,651	2,964
Lease incentive (Note 6)	(11,499)	-
Accretion of decommissioning obligation (Note 7)	7,158	2,398
Loss on settlement of decommissioning obligations (Note 7)	29,000	-
Foreign exchange	(11,003)	1,809
Decommissioning expenditures (Note 7)	(131,163)	-
Change in non-cash working capital		
Accounts receivable	(152,957)	(178,802)
Prepaid expenses and deposits	(40,706)	4,963
Trade and other payables	(28,702)	(53,862)
Cash flows used in operating activities	(323,580)	(122,506)
<b>Financing activities</b>		
Lease payments (Note 6)	(60,241)	(65,348)
Cash flows used in financing activities	(60,241)	(65,348)
<b>Change in cash</b>	(383,821)	(187,854)
Foreign exchange effect of USD denominated cash	(33)	191
<b>Cash, beginning of period</b>	1,652,783	1,997,996
<b>Cash, end of period</b>	\$ 1,268,929	\$ 1,810,333

See the accompanying notes to these condensed interim consolidated financial statements.

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**Capitan Investment Ltd.****Notes to Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2023**

(unaudited)

(in Canadian dollars)

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**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.

As at June 30, 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**

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, GC Capital Holdings Inc., and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 29<sup>th</sup>, 2023.

**3. 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 will 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 June 30, 2023 carrying value of the Investments is \$6,620,000 (USD 5,000,000) (2022 – \$6,772,000 (USD 5,000,000)). The fair value of the Investments approximates their carrying value as the Company will redeem the Investments on or before August 31, 2023.

**Capitan Investment Ltd.****Notes to Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2023**

(unaudited)

(in Canadian dollars)

**4. Accounts Receivable**

	June 30 2023	December 31 2022
Goods and Services Tax	\$ 9,260	\$ 2,115
Return on investment (Note 3)	384,504	226,352
Oil and gas marketers	–	12,340
	<b>\$ 393,764</b>	<b>\$ 240,807</b>

The Company's accounts receivable are aged as follows:

	March 31 2023	December 31 2022
Less than 60 days old	\$ 119,291	\$ 185,147
Over 60 days old	274,473	55,660
	<b>\$ 393,764</b>	<b>\$ 240,807</b>

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-day 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 \$274,473 (December 31, 2022 – \$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 included in the less than 60 days aging category.

The Company historically has not experienced any significant collection issues for accounts receivable.

**5. Property and Equipment**

	Right-of-use asset	Furniture and equipment	Developed and producing assets	Total
<b>Cost</b>				
Balance, December 31, 2022	\$ 247,113	\$ 70,950	\$ 4,537,027	\$ 4,855,090
Expired lease	(243,044)	–	–	(243,044)
Lease addition (Note 6)	385,028	–	–	385,028
Foreign exchange	(6,411)	–	–	(6,411)
Balance, June 30, 2023	<b>\$ 382,686</b>	<b>\$ 70,950</b>	<b>\$ 4,537,027</b>	<b>\$ 4,990,663</b>
<b>Accumulated depletion and depreciation</b>				
Balance, December 31, 2022	\$ 236,155	\$ 65,707	\$ 4,362,793	\$ 4,664,655
Depletion and depreciation	63,542	537	4,573	68,652
Expired lease	(243,044)	–	–	(243,044)
Foreign exchange	(4,939)	–	–	(4,939)
Balance, June 30, 2023	<b>\$ 51,714</b>	<b>\$ 66,244</b>	<b>\$ 4,367,366</b>	<b>\$ 4,485,324</b>
<b>Net carrying amount</b>				
As at December 31, 2022	\$ 10,958	\$ 5,243	\$ 174,234	\$ 190,435
As at June 30, 2023	<b>\$ 330,972</b>	<b>\$ 4,706</b>	<b>\$ 169,661</b>	<b>\$ 505,339</b>



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**Capitan Investment Ltd.****Notes to Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2023**

(unaudited)

(in Canadian dollars)

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**6. Lease Liability**

The Company incurs lease payments related to office premises.

Balance, December 31, 2022	\$	11,515
Rent incentive for expired lease		(11,499)
Addition		385,028
Imputed interest		16,653
Lease payments		(60,241)
Foreign exchange		(1,626)
Balance, June 30, 2023		339,830
Current portion		(112,805)
Long-term portion	\$	227,025

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. The lease liability and related right-of-use asset (Note 5) for the office premises was determined using an incremental borrowing rate of 12% and a lease term of 37 months.

As at June 30, 2023, the remaining expected payments under the Company's office lease agreement are as follows:

	Annual USD	Annual CAD
Remainder of 2023	\$ 53,680	\$ 71,072
2024	110,312	146,053
2025	113,662	150,435
2026	19,268	25,510

**7. Decommissioning Obligations**

Balance, December 31, 2022	\$	380,309
Accretion		7,158
Expenditures		(131,163)
Loss on settlement of decommissioning obligations		29,000
Balance, June 30, 2023		285,304
Current portion		(215,045)
Long-term portion	\$	70,259

As at June 30, 2023, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning obligations to be \$301,066 (December 31, 2022 – \$405,555). This amount will be substantially incurred over the next year (2022 – 1 year). The Company calculated the decommissioning obligations using an average risk-free discount rate of 4.01% per annum and a future inflation rate of 2% per annum.

During the six months ended June 30, 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 8).

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**Capitan Investment Ltd.****Notes to Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2023**

(unaudited)

(in Canadian dollars)

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**8. Oil and Gas Operations**

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Crude oil sales	\$ –	\$ 58,412	\$ 12,526	\$ 130,053
Royalties	–	(2,595)	(140)	(5,550)
	–	55,817	12,386	124,503
Production and operating expenses	(4,151)	(18,209)	(25,054)	(38,199)
Depletion (Note 5)	–	(13,249)	(4,573)	(33,587)
Accretion	(3,466)	(1,197)	(7,158)	(2,398)
Loss on settlement of decommissioning obligations (Note 7)	(29,000)	–	(29,000)	–
Net income (loss) from oil and gas operations	\$ (36,617)	\$ 23,162	\$ (53,399)	\$ 50,319

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 oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from Company-operated heavy oil properties.

As at June 30, 2023, accounts receivable (Note 4) included \$nil from an oil and gas marketer (December 31, 2022 – \$12,340).

**9. Credit Risk**

Management believes credit 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.

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 3).

Accounts receivable credit risk is discussed in Note 4.

The maximum exposure to credit risk at is as follows:

		June 30 2023		December 31 2022
Cash and cash equivalents	\$	1,268,929	\$	1,652,783
Investments (Note 3)		6,620,000		6,772,000
Accounts receivable (Note 4)		393,764		240,807
	\$	8,282,693	\$	8,665,590