



G2 Energy Corp.
(Formerly G2 Technologies Corp.)

Consolidated Financial Statements
Years Ended June 30, 2022 and 2021
(Expressed in Canadian dollars)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of G2 Energy Corp. (formerly G2 Technologies Corp.)

Opinion

We have audited the consolidated financial statements of G2 Energy Corp. (formerly G2 Technologies Corp.) (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2022 and 2021, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, 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, 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 Financial Statements

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

December 30, 2022



G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	June 30, 2022	June 30, 2021
ASSETS			
Current			
Cash		\$ 201,898	\$ 159,077
Trade receivables	16	288,035	-
Prepaid and other receivables		168,461	97,349
Lease receivables		-	1,843
		658,394	258,269
Property, plant and equipment	6	7,129,506	-
TOTAL ASSETS		\$ 7,787,900	\$ 258,269
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		\$ 406,040	\$ 171,309
Due to related parties	12	451,101	13,845
Promissory note - Masten	8	585,351	-
Lease liability		-	1,843
		1,442,492	186,997
Asset retirement obligation	10	1,281,672	-
Promissory note - Masten	8	1,417,371	-
Debenture – Cloudbreak	9	2,395,345	-
Loan payable - CEBA	7	34,680	31,527
TOTAL LIABILITIES		6,571,560	218,524
Shareholders' Equity			
Share Capital	13	15,240,788	12,298,829
Shares to be issued	5a,b	488,857	-
Other reserves		2,763,291	1,821,067
Deficit		(17,276,596)	(14,080,151)
		1,216,340	39,745
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		\$ 7,787,900	\$ 258,269

Going concern (Note 1)
 Commitments (Notes 15)
 Contingencies (Note 18)
 Subsequent events (Note 20)

Approved and authorized for issuance by the Board of Directors on December 30, 2022:

/s/ "Slawomir Smulewicz"

Slawomir Smulewicz, Director

/s/ "John Costigan"

John Costigan, Director

(The accompanying notes are an integral part of these consolidated financial statements)

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

	Notes	Year ended	
		June 30, 2022	June 30, 2021
REVENUES	16	\$ 228,943	\$ -
COST OF SALES	11	(70,012)	-
GROSS PROFIT		158,931	-
OPERATING EXPENSES			
Consulting and management fees	12	(735,306)	(505,373)
Corporate development fees	18,20	(1,148,612)	(37,374)
General and administrative		(272,615)	(119,858)
Professional fees		(409,466)	(286,021)
Travel		(68,049)	(1,516)
Stock based compensation	12,13	(135,780)	(83,819)
TOTAL OPERATING EXPENSES		(2,769,828)	(1,033,961)
OPERATING LOSS		(2,610,897)	(1,033,961)
OTHER (EXPENSES) INCOME			
Finance expenses	7,8,9,10	(58,817)	(27,006)
Foreign exchange gain		60,769	2,025
Loss on disposal of property interest	6	(586,564)	-
Gain from settlement of liabilities	13	-	189,593
TOTAL OTHER INCOME (EXPENSE)		(584,612)	164,612
LOSS BEFORE INCOME TAXES		(3,195,509)	(869,349)
Tax provision	19	(936)	-
NET LOSS		(3,196,445)	(869,349)
Foreign currency translation		(10,211)	-
COMPREHENSIVE LOSS FOR THE YEAR		(3,206,656)	(869,349)
Loss Per Share - Basic and Diluted		\$ (0.09)	\$ (0.07)
Weighted average number of shares outstanding – Basic and Diluted		35,623,523	12,655,634

(The accompanying notes are an integral part of these consolidated financial statements)

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Number	Amount Received	Share-based Payment Reserves	Warrant Reserves	Convertible Debt Reserves	Shares to be Issued	AOCI	Deficit	Total Shareholders' Equity (Deficit)
		\$	\$	\$	\$	\$	\$	\$	\$
BALANCE, JUNE 30, 2021	23,376,135	12,298,829	1,462,622	322,770	35,675	-	-	(14,080,151)	39,745
Share issuance – private placement (note 13)	22,329,950	2,104,959	-	572,790	-	-	-	-	2,677,749
Share issuance – warrants exercised (note 13)	80,000	12,000	-	-	-	-	-	-	12,000
Shares and warrants issuance – Masten (note 5,13)	5,000,000	825,000	-	243,865	-	488,857	-	-	1,557,722
Stock based compensation (note 13)	-	-	135,780	-	-	-	-	-	135,780
Cumulative translation adjustments	-	-	-	-	-	-	(10,211)	-	(10,211)
Net loss for the year	-	-	-	-	-	-	-	(3,196,445)	(3,196,445)
BALANCE, JUNE 30, 2022	50,786,085	15,240,788	1,598,402	1,139,425	35,675	488,857	(10,211)	(17,276,596)	1,216,340
BALANCE, JUNE 30, 2020	5,029,016	10,366,636	1,378,803	322,770	35,675	-	-	(13,210,802)	(1,106,918)
Shares for debt – accounts payables (note 13)	283,037	56,602	-	-	-	-	-	-	56,602
Shares for debt – loan payable (note 13)	275,430	51,118	-	-	-	-	-	-	51,118
Shares for debt – convertible debenture (note 13)	905,652	271,696	-	-	-	-	-	-	271,696
Share issuance – private placement (note 13)	16,633,000	1,527,777	-	-	-	-	-	-	1,527,777
Share issuance – private placement (note 13)	250,000	25,000	-	-	-	-	-	-	25,000
Stock based compensation (note 13)	-	-	83,819	-	-	-	-	-	83,819
Net loss for the year	-	-	-	-	-	-	-	(869,349)	(869,349)
BALANCE, JUNE 30, 2021	23,376,135	12,298,829	1,462,622	322,770	35,675	-	-	(14,080,151)	39,745

(The accompanying notes are an integral part of these consolidated financial statements)

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Year ended	
	June 30, 2022	June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (3,196,445)	\$ (869,349)
Items not Affecting Cash:		
Depreciation	3,373	-
Depletion	13,242	-
Finance cost – non cash	37,213	27,006
Loss on disposal of property interest	586,564	-
Foreign exchange gain	(41,283)	-
Stock based compensation	135,780	83,819
Gain from settlement of liabilities	-	(189,593)
	(2,461,556)	(948,117)
Changes in Non-Cash Working Capital Items:		
Prepaid and other receivables	(107,304)	(55,745)
Accounts payables and accrued liabilities	232,888	(141,180)
Due to related parties	178,227	(201,883)
Net Cash Used In Operating Activities	(2,157,745)	(1,346,925)
CASH FLOWS FROM INVESTING ACTIVITIES		
Masten acquisition cost	(3,201,843)	-
Net Cash Used In Investing Activities	(3,201,843)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement, net of share issuance cost (note 6)	2,677,749	1,527,777
Proceeds from warrants exercised	12,000	-
Proceeds from related party loan	259,029	-
Loan repayment	-	(123,278)
Cloudbreak – debt issuance cost	(75,933)	-
Proceeds from loan payable	2,529,564	98,000
Net Cash Flow From Financing Activities	5,402,409	1,502,499
Change in Cash During the Year	42,821	155,574
Cash, Beginning of Year	159,077	3,503
Cash, End of Year	\$ 201,898	\$ 159,077

(The accompanying notes are an integral part of these consolidated financial statements)

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Notes to the Consolidated Financial Statements

Year ended June 30, 2022 and 2021

(Expressed in Canadian dollars)

1. Corporate Information

G2 Energy Corp. (the “Company” or “GTOO”) was incorporated on October 9, 2014 in British Columbia under the Business Corporations Act.

On January 16, 2017, the Company entered into a Share Exchange Agreement with G2BE Canada Inc. (“G2BEC”), a private British Columbia company incorporated on May 30, 2014 resulting in a reverse-takeover transaction whereby the Company acquired all of the issued and outstanding common shares in the capital of GTOO (the “Transaction”).

Up until the disposition of all of its then operating subsidiaries on March 31, 2020, the Company was in the business of manufacturing, marketing, and distributing softwood pellets for consumer and industrial customers and arranging transactions between buyers and sellers of alternative energy products.

On June 1, 2022, the Company acquired the Masten Unit (“Masten”) and changed its business to that of an oil and gas producer (note 5).

On June 9, 2022, the Company changed its name to G2 Energy Corp. and change its ticker symbol to “GTOO”.

The Company’s registered office and head office are located at Suite 430 – 744 West Hastings Street, Vancouver BC, V6C 1A5.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of June 30, 2022, the Company had a negative cash flows from operations, had an accumulated deficit of \$17,276,596 (June 30, 2021 - \$14,080,151). Furthermore, the Company incurred a net loss of \$3,196,445 during the year ended June 30, 2022 (2021 - \$869,349). The Company has suffered recurring losses and negative cash flows from operations. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The Company will need to raise funds through either the sale of its securities, issuance of corporate bonds, joint venture agreements and/or bank financing to accomplish its goals. If additional financing is not available when needed, the Company may need to cease operations. The Company may not be successful in raising the capital needed to drill and/or rework existing oil wells. Any additional wells that the Company may drill may be non productive. Management believes that actions taken to secure additional funding for the reworking of its existing infrastructure will provide the resources for the Company to continue as a going concern. Since the Company has an oil producing asset, its goal is to increase the production rate by optimizing its current infrastructure. The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern; no adjustments to the financial statements have been made to account for this uncertainty, and any adjustments required could be material.

Covid-19

During March 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time the extent of the impact the COVID-19 outbreak may have on the Company is still unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. COVID-19 has had the effect of delaying transactions and equity financings that the Company is pursuing.

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Notes to the Consolidated Financial Statements

Year ended June 30, 2022 and 2021

(Expressed in Canadian dollars)

2. Basis of Presentation

(a) Statement of Compliance and Principles of Consolidation

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 interpretations issued by the International Reporting Interpretation Committee (“IFRIC”) for all periods presented.

The consolidated financial statements were authorized for issue by the Board of Directors on December 30, 2022.

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

Name of Subsidiary	Place of Incorporation	June 30, 2022 Ownership Interest	June 30, 2021 Ownership Interest
G2 Energy Holding US Inc. (“G2HUS”)	US	100%	N/A
G2 Energy TX1 Inc. (“G2TX1”)	US	100%	N/A
G2 Energy TX2 Inc. (“G2TX2”)	US	100%	N/A
G2 Energy USA Corp. (“G2USA”)	Canada	100%	N/A

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable for financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The consolidated financial statements are presented in Canadian dollars, except where otherwise indicated. The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The functional currency of the Company, G2USA is Canadian dollars and G2HUS, G2 TX1 and G2TX2 's functional currency is United States dollars (“US\$”).

(c) Use of Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date could result in a material adjustment to the carrying amounts of assets and liabilities.

Significant areas of estimation and judgment include the collectability of other receivables, useful life and recoverability of long-lived assets, measurement of provisions, fair value of share-based payments, application of the going concern assumption, and deferred income tax asset valuation allowances.

The Company’s policy for property and equipment requires judgment in determining whether the present value of future expected economic benefits exceeds capitalized costs. The policy requires management to make certain estimates and assumptions about future economic benefits related to its operations. Estimates and assumptions may change if new information becomes available. If information becomes available suggesting that the recovery of capitalized cost is unlikely, the capitalized cost is written off in the consolidated statement of comprehensive loss.

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Notes to the Consolidated Financial Statements

Year ended June 30, 2022 and 2021

(Expressed in Canadian dollars)

Proved and probable developed oil and gas reserves estimates are not recorded in the Company's consolidated financial statements but they do affect net earnings and assets and liabilities through their impact on depreciation, depletion and amortization the impairment calculations, the recoverability of deferred income tax assets and the fair values of assets acquired through business combinations. By their nature, oil and gas reserves estimates, include significant assumptions related to future royalty production volumes and forecasted oil and gas commodity prices, which are subject to measurement uncertainty. Accordingly, the impact to amounts reported in the consolidated financial statements for future periods could be material. The Company's oil and gas reserves are evaluated by independent qualified reserve evaluators at least annually and are determined pursuant to National Instrument 51-101 Standard of Disclosures for Oil and Gas Activities

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt about the Company's ability to continue as a going concern.

3. Proposed New Accounting Policies

As of June 30, 2022, there were no new accounting pronouncements that are expected to have a material impact to the consolidated financial statements.

4. Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value, to be cash equivalents.

(b) Accounts Receivable

Accounts receivable is comprised of amounts due from customers for purchases of the Company's products and is recorded net of allowance for doubtful accounts. Factors such as current economic conditions, historical information, and reasons for any accounts being past due are all considered when determining whether to write off accounts receivable balances.

(c) Business Combinations

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS 3. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration of acquisition given up is less than the fair value of the net assets received, the difference is recognized immediately in profit or loss. If the consideration of acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the consolidated statement of financial position. Acquisition costs incurred are expensed. Amendments made to IFRS 3 – Business Combinations have been adopted by the Company. The amendments include a change in the definition of a business and the addition of an optional concentration test to determine if the acquisition is a business. The definition of a business under IFRS 3 is that a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

- Input: any economic resource that creates outputs or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output: The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

The optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(d) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. 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. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

(e) Property Plant and Equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment charges, if any. Cost includes expenditures directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be reliably measured. All other expenditures are charged to operating expenses as incurred.

Production equipment is amortized over its remaining life of 10 years.

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

Notes to the Consolidated Financial Statements

Year ended June 30, 2022 and 2021

(Expressed in Canadian dollars)

(f) Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, then the asset's recoverable amount is estimated. The recoverable amounts of the following types of intangible assets are measured annually whether or not there is any indication that they may be impaired:

- an intangible asset with an indefinite useful life;
- an intangible asset not yet available for use; and
- goodwill acquired in a business combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill and intangible assets that have indefinite useful lives, impairment losses recognized in prior periods are assessed at each reporting date for any indications 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 depreciation or amortization, if no impairment loss had been recognized.

(g) Financial Instruments

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

G2 ENERGY CORP. (FORMERLY G2 TECHNOLOGIES CORP.)

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The following table shows the classification of financial instruments under IFRS 9:

Financial assets/liabilities	Classification under IFRS 9
Cash	FVTPL
Trade Receivables	Amortized cost
Accounts payable	Amortized cost
Due to related parties	Amortized cost
Promissory note - Masten	Amortized cost
Loan payable - CEBA	Amortized cost
Debenture - Cloudbreak	Amortized cost

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive loss ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

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Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

(g) Asset retirement obligation

The Company recognizes statutory, contractual, and other obligations for the future costs associated with removal, site restoration, related to the retirement of tangible long-lived assets. These obligations are initially measured at present value and subsequently adjusted for the accretion of any discount and changes in the underlying future cash flows and discount rate. The asset retirement cost is capitalized to the related asset and amortized to operations over time.

The Company recognizes the present value of the liability for a decommissioning obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The present value is estimated using a risk free interest rate, of the estimated future cash outflows to retire the obligation. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of comprehensive loss. The increase in the carrying value of the asset is amortized on the same basis as the resource properties.

(h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax “risk-free” rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

(i) Revenue

The following is the Company’s accounting policy for revenue from contracts with customers under IFRS 15:

The Company derives revenues from the sale of oil and gas.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company’s activities as described below.

Revenue from the sale of the oil and gas is recognized when the Company’s operator confirms the sale and the products have been delivered to the customer.

(j) Finance income and expenses

Interest income and expense is recognized as it accrues in net income (loss), using the effective-interest method

(k) Loss per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, the exercise of stock options and share purchase warrants is considered to be anti-dilutive and basic and diluted loss per share are the same.

(l) Foreign currency translation

The functional currency of the reporting entity and each of its foreign operations must be assessed independently giving consideration to the primary economic environment in which each reporting entity operates. Management has determined that the functional currencies of all its US subsidiaries to be US dollars, as this is the currency of the primary economic environment in which these subsidiaries operate. The Company’s and its Canadian subsidiaries have the Canadian dollar as their functional currency.

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In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each consolidated statement of financial position date, monetary assets and liabilities in foreign currencies are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are recorded as foreign exchange gain or loss in profit or loss.

The results and financial position of those entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the Statement of Financial Position;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income (loss).

(m) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as a stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(n) Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

(o) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it is probable that a future tax asset will be recovered, it does not recognize the asset.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(p) Government grants

Loans received from government are recognized initially at fair value, with the difference between the fair value of the loan based on prevailing market interest rates and the amount received, is being recorded as finance income, in the consolidated statements of comprehensive loss.

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5. Acquisition of Masten

On June 1, 2022, the Company completed the acquisition of a 100% working interest in the Masten Unit (“Masten”). Masten is a 2,600 acre project located within the Levelland Field in Cochran County, Texas. Four wells currently operate on the project.

The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition. Fair value of consideration paid is allocated to assets and liabilities acquired.

Details of the fair value of the consideration paid is as follows:

Cash consideration – US\$400,000	\$	514,879
Cash consideration – US\$2,000,000		2,529,564
Promissory note – US\$1,600,000 (note 8)		1,943,884
Transaction cost – cash expenditures for legal fees		157,400
Transaction cost – 1,200,000 closing shares to be issued (a)		151,020
Transaction cost – US\$400,000 performance shares (b)		337,837
Transaction cost – 5,000,000 finder’s shares (note 13)		825,000
Transaction cost – 3,000,000 finder’s warrants (note 13)		243,865
Total purchase price	\$	6,703,450

Fair value of the consideration paid was allocated to the acquired assets and liabilities as follows:

Oil and gas property	\$	7,302,593
Property, plant and equipment		404,730
Accounts receivable		250,524
Asset retirement obligation acquired (note 10)		(1,254,397)
Net assets acquired	\$	6,703,450

- a) The 1,200,000 closing shares were issued subsequent to June 30, 2022 on August 30, 2022. The fair value of the contingent shares as at the acquisition date was \$151,020 and was determined based on the fair value of the shares less a discount for the lack of marketability using a Black-Scholes valuation model with the following assumptions:

	At acquisition
Fair value of common shares	\$0.165
Exercise price	\$0.165
Expected life (years)	0.25
Volatility	120%
Risk free rate	1.52%
Dividend rate	0%
Discount	46,980

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- b) The fair value of the \$505,913 (US\$400,000) performance shares was determined based on the fair value of the shares less a discount for the lack of marketability using a Black-Scholes valuation model with the following assumptions:

	At acquisition
Fair value of common shares	\$0.165
Exercise price	\$0.165
Expected life (years)	0.50
Volatility	120%
Risk free rate	2.15%
Dividend rate	0%
Discount	168,076

6. Property, plant and equipment

	Equipment	Oil and gas property*	Total
Balance, as of June 30, 2021 and 2020	\$ -	\$ -	\$ -
Additions (note 5)	404,730	7,302,593	7,707,323
Disposal of royalty interest (see note 9)	-	(696,151)	(696,151)
Depreciation, depletion (note 11)	(3,373)	(13,242)	(16,615)
Foreign exchange impact	10,151	124,798	134,949
Balance, as of June 30, 2022	\$ 411,509	\$ 6,717,997	\$ 7,129,506

The Masten project had a total royalty payable on its oil and gas revenue of 24.16% (inclusive of Cloudbreak royalty (note 9)). Accordingly, the Company has net revenue interest in the oil and gas property of 75.84%.

As part of obtaining the debenture from Cloudbreak the Company assigned a revenue royalty of 3.25% to Cloudbreak. The assignment of the royalty was accounted for as a disposal of the oil and gas asset with a carrying value of \$696,151 (the carrying value was determined based on the relative fair value) and a net loss on the disposal of \$586,564 was recognised in the consolidated statement of comprehensive loss.

7. Loans Payable - CEBA

On April 29, 2020, the Company was approved and received a \$40,000 line of credit ("CEBA LOC") with CIBC under the Canada Emergency Business Account ("CEBA") program funded by the Government of Canada. The CEBA LOC is non-interest bearing and can be repaid at any time without penalty.

On January 1, 2021, the outstanding balance of the CEBA LOC will automatically convert to a 2-year interest free term loan ("CEBA Term Loan"). The CEBA Term Loan may be repaid at any time without notice or the payment of any penalty. If 75% of the CEBA Term Loan, at the CEBA Term Loan Commencement Date, is repaid on or before December 31, 2023, the repayment of the remaining 25% of such CEBA Term Loan shall be forgiven. If on December 31, 2023, the Company exercises the option for a 3-year term extension, 5% interest during the term extension period will apply on any balance remaining.

The Company recorded the fair value of \$28,190 at the initial recognition date of the CEBA LOC using an effective interest rate of 10% per annum. The difference of \$11,810 between the fair value and the total amount of CEBA LOC received has been recorded as a government grant in finance income, during the year ended June 30, 2020.

	Total
Balance, as of June 30, 2020	\$ 28,661
Accretion expense	2,866
Balance, as of June 30, 2021	\$ 31,527
Accretion expense	3,153
Balance, as of June 30, 2022	\$ 34,680

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8. Promissory note – Masten

On May 31, 2022, the sellers of Masten (“Sellers”) financed a portion of the purchase price for the acquisition of the Masten with a secured loan by promissory note (the "Note") in the principal amount of US\$1,600,000 with the following terms:

- Primary security by deed of trust over all of the property and assets of G2 TX1, including the oil and gas leases;
- Three (3) year maturity;
- Bears 10% interest per annum;
- Principal and interest to be paid in 35 equal monthly installments of USD\$51,627 and the balance in the 36th month;

	Total
Balance, as of June 30, 2021	\$ -
Principal acquired (a)	1,943,884
Accretion expense	4,157
Interest expense – US\$13,333	16,873
Foreign exchange impact	37,808
Balance, as of June 30, 2022	\$ 2,002,722
Less: current portion	(585,351)
Non current portion	\$ 1,417,371

- a) The Note’s carrying value was discounted through the effective interest rate method over 3 years at 13.5% (based on the Company’s incremental borrowing rate for the secured debt). As a result, the US\$1,600,000 had an opening carrying value of \$1,943,884 (US\$1,536,932). The difference between the face value of the debt and the fair value represents a reduction of the purchase price of the oil and gas property.

9. Convertible debenture – Cloudbreak

Cloudbreak Discovery PLC (“Cloudbreak”), a third party lender, financed a portion of the purchase price for the Masten acquisition with a US\$2,000,000 secured debenture (the "Debenture") having the following terms:

- Secondary security (behind the Note, note 8) over all of the property and assets of G2 TX1;
- Pledge of 100% of the issued common shares of G2 TX1, which are held by another subsidiary of the Company;
- Guarantee by the Company of all of G2 TX1's obligations under the Debenture;
- Two (2) year maturity;
- 12% interest per annum payable quarterly;
- Accrued interest is convertible to common shares of the Company at Cloudbreak's option. The interest conversion price will be based on the closing price of the Company’s shares on the last trading day of the applicable calendar quarter end, subject to regulatory approval, if required. As at June 30, 2022, interest of \$25,310 (US\$20,000) was paid in cash and the remaining accrued interest was \$nil.

The Company issued 6,500,000 share purchase warrants to Cloudbreak with an exercise price of C\$0.30 per share exercisable for two (2) years from the closing date, with G2 having the right to accelerate the expiry date of the warrants if the closing price of the common shares on the CSE trades above \$0.60 for a period of 10 consecutive trading days. The fair value if the discount attributed to the warrants was recorded as part of the loss on disposal of the 3.25% revenue royalty interest (note 6).

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	Total
Balance, as of June 30, 2021	\$ -
Principal acquired – US\$2,000,000	2,529,564
Loss on disposal of the 3.25% royalty interest	(109,931)
Debt issuance cost – legal fees	(75,933)
Interest expense	25,310
Interest paid	(25,310)
Accretion expense	31,422
Foreign exchange impact	20,223
Balance, as of June 30, 2022	\$ 2,395,345

- 3.25% overriding royalty on production from Masten which was accounted for as a disposal of part of the property (note 6);
- Cloudbreak has the right for two (2) years to provide debt financing for future acquisitions of properties by the Company or G2 TX1 within an area of interest and area of influence set out in the Debenture. If Cloudbreak decides to provide financing to the Company's future acquisitions, Cloudbreak will be entitled to a 1% overriding royalty on all oil and gas and other substances produced and sold from the applicable area of interest property.

The Debenture's carrying value was discounted through the effective interest rate method over 2 years at 15.5% (based on the Company's incremental borrowing rate for the second secured debt). As a result, the US\$2,000,000 had an opening carrying value of \$2,419,633. The difference between the face value of the debt and the fair value of the debenture was recorded as part of the loss on the disposal of the 3.25% revenue royalty (note 6).

10. Asset retirement obligation

The Company's estimates of future decommissioning and restoration for reclamation and closure costs for its oil and gas assets are based on reclamation standards that meet local regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs is estimated at US\$1,210,000.

Masten's estimated current expenditure for remediation costs at the date of acquisition was \$1,559,842 (US\$1,210,000) reflecting anticipated cash flows to be incurred over approximately the next 34 years (with the inflation rate of 2.43%, and risk free discount rate of 2.94%). The Company recorded accretion of \$3,074 included in finance cost on the consolidated statement of loss and comprehensive loss for the year ended June 30, 2022.

The discounted liability for the decommissioning and restoration provision is as follows:

	Total
Balance, as of June 30, 2021	\$ -
Masten acquisition	1,254,397
Accretion expense	3,074
Foreign exchange impact	24,201
Balance, as of June 30, 2022	\$ 1,281,672

11. Cost of sales

	Year ended June 30,	
	2022	2021
Operating cost	\$ 23,613	\$ -
Operating overhead	9,987	-
Oil and gas severance tax	19,797	-
Depreciation (note 6)	3,373	-
Depletion (note 6)	13,242	-
	\$ 70,012	\$ -

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12. Related Party Transactions

The Company's related parties (CEO, CFO, Directors (together as "key management") and companies controlled by key management) include its subsidiaries and key management.

- a) As of June 30, 2022, the Company owed \$67,520 (June 30, 2021 - \$235) to the President of the Company and a company, Blue Amber Enterprise Ltd. ("Blue Amber"), controlled by the President of the Company.
- b) As of June 30, 2022, the Company owed an aggregate of \$54,114 (June 30, 2021 - \$3,150) to four Directors of the parent Company. The amounts owing is unsecured, non-interest bearing, due on demand and is included in Due to related parties.
- c) During the year ended June 30, 2022, the Company recorded management fees of \$332,070 (2021 - \$321,731) to the President of the Company and a company (Blue Amber Enterprise Ltd.) controlled by the President of the Company.
- d) During the year ended June 30, 2022, the Company recorded consulting fees of \$180,000 (2021 - \$138,000) to a company (Samina Capital Ltd.) controlled by the Chief Financial Officer of the Company.
- e) During the year ended June 30, 2022, the Company recorded directors fees of \$166,649 (2021 - \$8,000) to Directors of the Company, which are included in consulting and management fees.
- f) As of June 30, 2022, the Company owed \$329,467 (June 30, 2021 - \$13,845) to various related parties. This includes a \$259,029 unsecured non interest bearing loans from the President and Chief Financial Officer and \$70,438 owing to the CFO and his related company which is due on demand and bears no interest.
- g) For the year ended June 30, 2022, companies controlled by directors, directors and officers subscribed to \$166,000 for 1,535,000 common shares (2021 - \$150,000 for 1,500,000 common shares) through various private placements.
- h) For the year ended June 30, 2022, stock based compensation related to stock options granted to directors and officers was \$127,159 (2021 - \$76,834).

13. Share Capital

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares without par value. The Company has not issued any preferred shares since inception.

Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As of June 30, 2022, there was a total of 50,786,085 common shares outstanding (June 30, 2021 – 23,376,135).

Issued during year ended June 30, 2022

- i) On September 7, 2021, the Company completed a non-brokered private placement financing issuing an aggregate of 6,370,000 units at a price of \$0.10 per unit, for gross proceeds of \$637,000. Each Unit consists of 1 common share and 1 share purchase warrant (exercise price of \$0.15, expire on September 7, 2023). Total finder's fee and transactional cost were \$32,117, resulting in net proceeds of \$604,883.
- ii) On October 4, 2021, the Company completed a non-brokered private placement financing issuing an aggregate of 5,619,950 units at a price of \$0.10 per unit, for gross proceeds of \$561,995. Each Unit consists of 1 common share and 1 share purchase warrant (exercise price of \$0.15, expire on October 4, 2023). Total finder's fee and transactional cost were \$35,213, resulting a net proceeds of \$526,782.
- iii) On December 30, 2021, the Company completed a non-brokered private placement financing issuing an aggregate of 2,585,000 units at a price of \$0.10 per unit, for gross proceeds of \$258,500. Each Unit consists of 1 common share and 1 share purchase warrant (exercise price of \$0.15, expire on December 30, 2023). Total finder's fee and transactional cost were \$2,298, resulting in net proceeds of \$256,202.
- iv) On February 3, 2022, the Company closed a non-brokered private placement through issuing 1,750,000 units at a price of \$0.10 per unit for a total gross proceeds of \$175,000. Each unit consists of 1 common shares of the Company and 1 transferable common share purchase warrant (exercise price of \$0.15 per warrant and an expiry date of February 3, 2023). Total finder's fee and transactional cost were \$19,216, resulting in net proceeds of \$155,784.
- v) On May 27, 2022, the Company closed a non-brokered private placement through issuing 6,005,000 units at a price of \$0.20 per unit for a total gross proceeds of \$1,201,000. Each unit consists of 1 common shares of the

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Company and 1/2 transferable common share purchase warrant (exercise price of \$0.30 per warrant and an expiry date of November 27, 2023). Total finder's fee and transactional cost were \$66,902, resulting in net proceeds of \$1,134,098.

- vi) On June 1, 2022, the Company issued 5,000,000 finder's shares (note 5) as part of the Masten acquisition. The fair value of the finder's shares was \$825,000.
- vii) On June 16, 2022, the Company issued 80,000 shares at \$0.15 (proceeds of \$12,000) due to warrants exercised.

For the private placements noted above in which shares and warrants were issued, the Company first determined the fair value of the shares from the private placements and the residual amount of \$572,790 was allocated to the warrant reserve representing the value assigned to the warrants in the private placements.

Issued during the year ended June 30, 2021:

- viii) On January 5, 2021, the Company completed a 20 to 1 shares consolidation. All common shares data has been updated to reflect the share consolidation from the beginning of the earliest period presented.
- ix) On February 3, 2021:
 - a) The Company completed a non-brokered private placement financing issuing an aggregate of 16,633,000 Units ("Unit") at a price of \$0.10 per Unit, for gross proceeds of \$1,663,300. Each Unit consists of 1 common share and 1 share purchase warrant (exercise price of \$0.15, expire on February 3, 2023). Total finder's fee and transactional cost were \$135,523.
 - b) In conjunction with the private placement, the Company also issued 250,000 Units to settle \$25,000 of accounts payables, no gain or loss on settlement was recognized.
 - c) Based on the fair value of the common shares at issuance, the residual value of \$nil was allocated to the valuation of warrants.
- x) On December 11, 2020, the Company issued common shares to settle the following liabilities:
 - a) 275,430 common shares to settle a loan payable principal of \$110,172. The fair value of the common shares was \$51,118, resulting in a gain in settlement of \$59,054.
 - b) 283,037 common shares to settle accounts payables of \$113,207. The fair value of the common shares was \$56,602, resulting in a gain in settlement of \$56,602.
 - c) 905,652 common shares to settle the total carrying value of the convertible debenture of \$345,632 (note 8(c)). The fair value of the common shares was \$271,696, resulting in a gain in settlement of \$73,937.

During the year ended June 30, 2021, the Company recorded a total of \$189,593 gain from settlement of liabilities through issuance of shares.

Stock Options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each stock option may be no less than the greater of \$0.10 per share and the closing market price of the Company's shares on the trading day immediately preceding the date of grant of the option, less any applicable discount allowed by the stock exchange on which the shares are traded, as calculated on the date of grant.

On June 2, 2022, the Company granted incentive stock options to purchase an aggregate amount of 3,150,000 common shares (vesting terms – 25% on grant date, 25% on December 2, 2022, June 2, 2023, and December 2, 2023) at an exercise price of \$0.20 per share (expires on June 2, 2027) to certain directors, officers and consultants in accordance with the provisions of its rolling incentive stock option plan. The grant of incentive stock options is subject to the policies of and acceptance by the Canadian Securities Exchange.

The total fair of these options at grant date was \$424,043, determined using a Black Scholes Option Pricing Model with the following assumptions: risk free interest rate of 2.89%, expected life of 5 years, expected volatility of 120%, and a dividend yield of 0%.

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On May 5, 2021, the Company granted incentive stock options to purchase an aggregate amount of 600,000 common shares (all vest upon issuance) at an exercise price of \$0.15 per share (expires on May 5, 2026) to certain directors, officers and consultants in accordance with the provisions of its rolling incentive stock option plan.

The total fair of these options at grant date was \$83,819, determined using a Black Scholes Option Pricing Model with the following assumptions: risk free interest rate of 0.91%, expected life of 5 years, expected volatility of 275%, and a dividend yield of 0%.

The following table summarizes the changes during the year ended June 30, 2022 and 2021:

	June 30, 2022		June 30, 2021	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding – beginning of year	600,000	0.15	390,750	2.80
Cancelled	-	-	(390,750)	2.80
Granted	3,150,000	0.20	600,000	0.15
Outstanding – end of period	3,750,000	0.19	600,000	0.15
Exercisable – end of period	1,387,500	0.19	600,000	0.15

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2022

Exercise Price	Expiry Date	Number of Options Outstanding and Exercisable	Number of Options Exercisable	Remaining Contracted Life (Years)
\$ 0.20	June 2, 2027	3,150,000	787,500	4.93
\$ 0.15	May 5, 2026	600,000	600,000	3.85
\$ 0.19		3,750,000	1,387,500	4.46

During the year period ended June 30, 2022, the Company recognized share-based compensation expense of \$135,780 for the options vested (2021 - \$83,819) in share-based payment reserve.

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Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2020	212,869	\$2.00
Issued	16,883,000	\$0.15
Expired	(212,869)	\$2.00
Balance June 30, 2021	16,883,000	\$0.15
Exercised*	(80,000)	\$0.15
Issued – September 7, 2021	6,370,000	\$0.15
Issued – October 4, 2021	5,619,950	\$0.15
Issued – December 30, 2021	2,585,000	\$0.15
Issued – February 2, 2022	1,750,000	\$0.15
Issued – May 27, 2022	3,002,500	\$0.30
Issued – May 27, 2022 broker's warrants	304,400	\$0.30
Issued – May 31, 2022 – Cloudbreak (note 9)	6,500,000	\$0.30
Issued – June 2, 2022 – Masten acquisition (note 5)**	3,000,000	\$0.30
Balance June 30, 2022	45,934,850	\$0.19

*The share price on the date when the warrants were exercised was \$0.12.

** On June 2, 2022, the Company issued of 3,000,000 finder's warrants related to Masten acquisition (see note 5), the fair value of \$243,865 was determined using a Black Scholes valuation model – with the following assumptions: fair value of common share at grant of \$0.165, exercise price of \$0.30, expected life of the warrant of 2 years, volatility of 120%, dividend rate of 0%, and a risk free interest rate of 2.76%

As of June 30, 2022, the Company had the follow share purchase warrants outstanding:

Exercise Price	Expiry Date	Number of Warrants	Remaining Contracted Life (Years)
\$ 0.30	June 2, 2024	3,000,000	1.93
\$ 0.30	May 31, 2024	6,500,000	1.92
\$ 0.30	November 27, 2023	3,306,900	1.41
\$ 0.15	February 3, 2024	1,750,000	1.60
\$ 0.15	December 30, 2023	2,585,000	1.50
\$ 0.15	October 4, 2023	5,619,950	1.26
\$ 0.15	September 7, 2023	6,370,000	1.19
\$ 0.15	February 3, 2023	16,803,000	0.60
\$ 0.19		45,934,850	1.18

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14. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity comprised of issued share capital, and reserves.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new equity issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged as of June 30, 2022.

15. Commitments

The Company has commitments consisting of royalty payments (note 6), asset retirement obligation (note 10), promissory (note 8), Cloudbreak debenture (note 9) and CEBA loan (note 7).

16. Financial Instruments and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument and related risks. Those risks and management's approach to mitigating those risks are as follows:

(a) Fair Values

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash is carried at fair value using a level 1 fair value measurement. The carrying value of trade receivables, accounts payable, promissory note, debenture and due to related parties, approximate their fair value due to the short-term nature of these instruments or having been measured using market discount rates, and are recorded at amortised cost.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk is in its cash and trade receivables. Cash is held with major banks in Canada, which are high credit quality financial institutions as determined by rating agencies, while trade receivables are dues from the multinational energy companies. The carrying amount of financial assets represents the maximum credit exposure.

(c) Currency Risk

The Company's functional currencies are the Canadian dollar and the US dollar. Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company's head office and some operating expenses are denominated in Canadian dollars. The Company's revenue and a large portion of operating expenses were denominated in US dollars. The Company managed its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables where possible.

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(d) Interest Rate Risk

The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates and its short-term term deposits at prescribed market rates. The fair value of the Company's cash is not significantly affected by changes in short-term interest rates. The interest expenses accrued for loans payable is subject to movement in interest rates, however all loans, promissory notes and debentures bear interest at fixed rates and are not subject to change.

(e) Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. As of June 30, 2022, the Company had a cash balance of \$201,898 to settle current liabilities of \$1,442,492. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Accounts payable, loans payable and accrued liabilities and amounts payable to related parties are all current. As the Company has limited sources of revenue, it may require additional financing to accomplish its long-term strategic objectives. Liquidity risk is assessed as high.

(f) Concentration risk related to Sales and Accounts Receivable

Two customers' accounts for 100% of the revenue for the year ended June 30, 2022. Accounts receivables, which the operator of the oil and gas property collects, are due from the two customers.

17. Segmented information

The Company had one operating segment which is oil and gas production. All long-term assets are located in the United States, which is where all the revenue is generated.

18. Contingencies

Civil Claim against the Company

On July 22, 2019, the Company served with a notice of civil claim, filed on July 11, 2019 with the Supreme Court of British Columbia, by Plaintiffs under the Class Proceedings Act, RSBC 1996, c 50, naming the Company as a defendant along with 86 additional defendants, in connection with allegations of the inappropriate use of the exemption from prospectus requirements contained in Section 2.12 of National Instrument 45-106 Prospectus Exemptions, and the disclosure records of the Company in respect of distributions of securities to consultants using such exemption. Honourable Madam Justice Adair has been assigned as the Judicial Management Judge in the above noted matter under the Class Proceedings Act. As of the date of approval of the financial statements, no legal decision has been made.

The Company also had a regulatory hearing submission before the B.C. Securities Commission ("BCSC") in respect of the allegation of misuse of the exemption from prospectus requirements contained in section 2.12 of National Instrument 45-106 and connected agreements with consultants of the Company. On April 29, 2021, BCSC filed a Notice of Discontinuance in the Supreme Court of British Columbia whereby proceedings against the Company were discontinued.

Michael Tietz, Duane Loewen against the Company

Related to the civil claim noted above, the Company also has a claim outstanding with Michael Tietz and Duane Loewen. The plaintiff has no specified its claim amount and the proposed class proceeding has not been certified. For greater clarity, the British Columbia supreme court has not yet given permission to the plaintiff to pursue any claim against the Company.

TriVista Oil Co. LLC ("Trivista")

On September 7, 2021, the Company paid a deposit ("Deposit") of \$506,880 (US\$400,000) to TriVista Oil Co. LLC ("TriVista") as part of a purchase and sale agreement. On October 21, 2021, the Company provided a Default Notice as the Company alleged certain title defects, defaults and misrepresentation by TriVista. The Company has demanded the escrow agent to release the Deposit back to the Company. As at October 28, 2022, there's no resolution and the Company is in the process of obtaining the Deposit back through legal channels. The Deposit was written off as at June 30, 2022 to corporate development expense.

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19. Tax provision

The Company operates in Canada and US and are subject to statutory income tax rates of 27% (Canada) and 21% (USA). The income tax provision differs from the amounts that would be obtained by applying the Canadian statutory income tax rate to net loss before taxes as follows:

	June 30, 2022	June 30, 2021
Statutory income tax rate	27%	27%
Income tax recovery at statutory rate	\$(862,787)	\$(234,724)
Tax effect of:		
Permanent differences and other	108,064	(63,099)
Change in unrecognized deferred income tax assets	755,659	297,823
Income tax provision	\$ 936	\$ –

The significant components of the Company's deferred income taxes are as follows:

	June 30, 2022	June 30, 2021
Deferred income tax assets		
Non-capital losses carried forward	2,744,476	2,292,624
Share issuance costs	52,098	37,674
Property and equipment	2,266	2,266
Total deferred income tax assets	2,798,840	2,332,564
Unrecognized deferred income tax assets	(2,798,840)	(2,332,564)
Net deferred income tax assets	–	–

As at June 30, 2022, the Company has non-capital losses carried forward of \$10,164,000 (2021 - \$8,482,000 with expiry from 2036 to 2041) in Canada which are available to offset future years' taxable income. These losses expire from 2036 to 2042.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

20. Subsequent Events

a) Bridwell Agreement

On September 21, 2022, the Company signed a purchase and sale agreement with a Texas company to acquire Bridwell Oil Company's Masten lease. The consideration of the acquisition is the cash sum of US\$200,000. As at December 30, 2022, the transaction has not closed.

b) Private placement

On October 21, 2022, The Company closed a non-brokered financing, over two tranches, of a total of \$642,500 through the issuance of 6,425,000 of units. Each unit comprise of one common share and one half share purchase warrant (exercise price of \$0.20 with a 2 year life).

c) Masten – share issuance

As part of the Masten acquisition (see note 5(a)), 1,200,000 common shares were issued on August 30, 2022

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d) HEXP

During the year ended June 30, 2022, the Company explored the potential acquisition of the HEXP property (“HEXP”). The Company paid \$479,466 (US\$380,000) as a non-refundable deposit prior to June 30, 2022. The Company has decided not to further pursue the HEXP acquisition and accordingly because the conditions leading to the termination of the acquisition subsequent to year ended June 30, 2022 existed, the deposits were written off as corporate development expense as at June 30, 2022.