G2 Energy Corp.

Consolidated Financial Statements

Years Ended June 30, 2023, and 2022

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
G2 Energy Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of G2 Energy Corp. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at June 30, 2023, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at June 30, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that as of June 30, 2023, the Group had a negative cash flow from operations and had an accumulated deficit of $19,844,277. Furthermore, the Group incurred a net loss of $2,567,681 during the year ended June 30, 2023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. The existence of a material uncertainty related to going concern is fundamental to users' understanding of the financial statements. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters (KAMs) are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue

Description:

As described in Note 4 to the consolidated financial statements, the Group recognizes revenue totalling \$1,431,414 from sale of oil and gas when the field operator confirms the sale and the products have been delivered to the customer. We identified the recognition of revenue from operations as key audit matter as it is quantitatively significant to the consolidated financial statements as a whole. There are potential for material misstatements within revenue, particularly in relation to revenue being recorded in the incorrect period, due to cut off errors or management override. Furthermore, due to conflicts between the field operator and the Group in the second half of the 2023 fiscal year, both the operating profit and production level decreased. This is a significant event, which required significant audit attention and effort to address the matter and ensure appropriate revenue recognition.

Procedures performed/How the KAM was addressed:

- In relation to revenue recognition, we have performed the following audit procedures, among others:
    - Reviewed supporting evidence from third parties and compared to balances recorded
    - Inquired management on variances identified
    - Reasonability analysis performed
    - Recalculation of inputs used to calculate revenue

Property, Plant and Equipment (Oil and Gas Property)

Description:

As described in Note 6 to the consolidated financial statements, the carrying amounts of the Groups' oil and gas property totalling \$7,524,203 makes up a significant portion of total assets.

Explanation on why this is a KAM:

- The oil and gas property is required to be assessed for impairment as described in note 4 to the consolidated financial statements when facts and circumstances suggest that the carrying value of the asset may exceed its recoverable amount. Indicators of impairment analysis require significant auditor judgements.
- Significant auditor attention is required in assessing the competency and objectivity of the management's expert and understanding the inputs/data used for the valuation of the asset.

Procedures performed/How the KAM was addressed:

The following procedures were performed to address the KAM:

- Reviewed reserve report and obtained an understanding of the work of the management's expert through inquiries and analysis.
- Reviewed source data provided by management and compared to third parties support to assess the reliability of the balance.
- Obtained purchase agreement to confirm the ownership of the Oil and Gas property.

- Performed sensitivity analysis.
- Obtained and reviewed management's assessment of the asset's performance and impairment analysis.

Asset retirement obligation

Description:

As described in Note 10 to the consolidated financial statement, the carrying amount of the Group's asset retirement obligation was $2,244,160 as of June 30, 2023. As more fully described in Note 4 to the consolidated financial statements, the Group recognizes statutory, contractual, and other obligations for the future costs associated with removal, site restoration, related to the retirement of tangible long-lived assets.

Explanation on why this is a KAM:

- Estimating the costs requires significant judgement and contains elements of uncertainty such as potential changes in regulatory requirements, discount rates, timing of expected expenditures, and when the reclamation will take place. This requires extensive audit effort and significant auditor attention.

The following procedures were performed to address the KAM:

- Obtain an understanding of the work of the management's expert
- Obtain third party supporting documentation to evaluate whether inputs used are appropriate
- Assess the appropriateness and accuracy of the rehabilitation model and changes in the cost estimates against the prior year calculation.
- Evaluate the appropriateness of discount rates applied to calculate the net present value of the provision and comparing them against market available data.

Other information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

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.

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

Other Matter
The consolidated financial statements of the Group for the year ended June 30, 2022 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on December 30, 2022.

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

Geib & Company Professional Corporation
Chartered Professional Accountants

Calgary, Alberta
October 30, 2023

G2 ENERGY CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	June 30, 2023 - $ -	June 30 2022 - $ -
ASSETS			
Current assets			
Cash		109,507	201,898
Trade receivables		24,640	288,035
Prepaid and other receivables		7,081	168,461
		141,228	658,394
Right of use asset	11	31,572	-
Property, plant and equipment	6	7,524,203	7,129,506
TOTAL ASSETS		7,697,003	7,787,900
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		604,638	406,040
Due to related parties		163,682	451,101
Promissory note - Masten	8	674,924	585,351
Debenture – Cloudbreak	9	2,539,193	-
Loan payable - CEBA	7	39,015	-
Lease liability	11	33,280	-
		4,054,732	1,442,492
Non-current liabilities			
Asset retirement obligation	10	2,244,160	1,281,672
Promissory note - Masten	8	780,783	1,417,371
Debenture – Cloudbreak	9	-	2,395,345
Loan payable - CEBA	7	-	34,680
		3,024,943	5,129,068
TOTAL LIABILITIES		7,079,675	6,571,560
SHAREHOLDERS' EQUITY			
Share capital	13	16,940,453	15,240,788
Shares to be issued		516,648	488,857
Reserves		3,230,934	2,773,502
Accumulated other comprehensive income		(226,430)	(10,211)
Deficit		(19,844,277)	(17,276,596)
TOTAL SHAREHOLDERS' EQUITY		617,328	1,216,340
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		7,697,003	7,787,900

Going concern (Note 1)
Commitments (Notes 16)
Contingencies (Note 19)
Subsequent events (Note 21)

Approved and authorized for issuance by the Board of Directors on October 30, 2023:

/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.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Notes	Years ended June 30 2023	2022
		- $ -	- $ -
Revenues		1,431,414	228,943
Cost of Sales	12	(1,155,738)	(70,012)
Gross Profit		275,676	158,931
Operating Expenses			
Consulting and management fees	13	(923,939)	(735,306)
Corporate development fees (recovery)	19	239,662	(1,148,612)
Depreciation – right of use asset	11	(34,701)	-
General and administrative	13	(397,678)	(272,615)
Professional fees		(503,163)	(409,466)
Travel		(20,636)	(68,049)
Share-based payments	13,14	(253,972)	(135,780)
Total Operating Expenses		(1,894,427)	(2,769,828)
Operating Loss		(1,618,751)	(2,610,897)
Other Expense			
Finance expense		(805,703)	(58,817)
Foreign exchange gain (loss)		7,055	60,769
Gain from settlement of liabilities		29,957	-
Loss from uncollectable receivables write-off		(180,239)	-
Loss on disposal of property interest	6	-	(586,564)
Total Other Expense		(948,930)	(584,612)
Loss before income tax		(2,567,681)	(3,195,509)
Tax expense (recovery)	20	-	(936)
Net loss		(2,567,681)	(3,196,445)
Foreign currency translation		(216,219)	(10,211)
Comprehensive loss		(2,783,900)	(3,206,656)
Basic and diluted loss per share		(0.20)	(0.45)
Weighted average common shares outstanding - basic and diluted		12,949,447	7,124,705

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

G2 ENERGY CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended June 30	
	2023	**2022**
	- $ -	- $ -
Cash from (used in):		
Operating Activities		
Net loss	(2,567,681)	(3,196,445)
Items not involving cash:		
Share-based payments	253,972	135,780
Depletion	348,879	13,242
Depreciation	132,203	3,373
Finance cost - non-cash	721,961	37,213
Loss on disposal of property interest	-	586,564
Foreign exchange gain on non-monetary items	(61,767)	(41,283)
Change in non-cash working capital items:		
Trade receivables	263,395	-
Prepaid and other receivables	161,380	(107,304)
Accounts payable and accrued liabilities	198,598	232,888
Due from related parties	(287,419)	178,227
Net cash used in operating activities	(836,479)	(2,157,745)
Investing Activities		
Masten acquisition cost	-	(3,201,843)
Cash used in investing activities	-	(3,201,843)
Financing activities		
Proceeds from private placement, net of share issuance cost	1,903,125	2,677,749
Proceeds from warrants exercised	-	12,000
Proceeds from related party loan	-	259,029
Proceeds from loans		2,529,564
Cloudbreak – debt issuance cost	-	(75,933)
Proceeds – advance for private placement	27,791	-
Promissory note - Masten repayment	(820,258)	-
Debenture – Cloudbreak repayment	(326,346)	-
Lease payment	(40,224)	-
Cash provided by financing activities	744,088	5,402,409
(Decrease) increase in cash and cash equivalents	(92,391)	42,821
Cash and cash equivalents, beginning	201,898	159,077
Cash and cash equivalents, ending	109,507	201,898

Supplementary Information:

Cash interest paid	(379,306)	-

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

G2 ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

			Reserves						
	Number of shares	**Share capital**	**Share-based payments reserve**	**Warrants reserve**	**Convertible Debt Reserves**	**Shares to be issued**	**Accumulated other comprehensive income**	**Deficit**	**Total shareholders' equity**
		- $ -	- $ -	- $ -	- $ -	- $ -		- $ -	- $ -
Balance, June 30, 2022	10,157,183	15,240,788	1,598,402	1,139,425	35,675	488,857	(10,211)	(17,276,596)	1,216,340
Masten acquisition (note 5a)	240,000	151,020	-	-	-	(151,020)	-	-	-
Stock based compensation	-	-	253,972	-	-	-	-	-	253,972
Share issuance – private placement (note 14)	3,345,800	718,948	-	128,500	-	-	-	-	847,448
Share issuance – shares for debt (note 14)	12,092,605	829,697	-	74,960	-	-	-	-	904,657
Shares to be issued	-	-	-	-	-	178,811	-	-	178,811
Cumulative translation adjustments	-	-	-	-	-	-	(216,219)	-	(216,219)
Net loss	-	-	-	-	-	-	-	(2,567,681)	(2,567,681)
Balance, June 30, 2023	25,835,588	16,940,453	1,852,374	1,342,885	35,675	516,648	(226,430)	(19,844,277)	617,328
Balance, June 30, 2021	4,675,193	12,298,829	1,462,622	322,770	35,675	-	-	(14,080,151)	39,745
Share issuance – private placement (note 14)	4,465,990	2,104,959	-	572,790	-	-	-	-	2,677,749
Share issuance – warrants exercised (note 14)	16,000	12,000	-	-	-	-	-	-	12,000
Shares and warrants issuance – Masten (note 5,14)	1,000,000	825,000	-	243,865	-	488,857	-	-	1,557,722
Share-based payments (note 13)	-	-	135,780	-	-	-	-	-	135,780
Cumulative translation adjustments	-	-	-	-	-	-	(10,211)	-	(10,211)
Net loss	-	-	-	-	-	-	-	(3,196,445)	(3,196,445)
Balance, June 30, 2022	10,157,183	15,240,788	1,598,402	1,139,425	35,675	488,857	(10,211)	(17,276,596)	1,216,340

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

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 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 traded under the ticker symbol “GTOO”. The Company’s registered office is located at Suite 430 – 744 West Hastings Street, Vancouver BC, V6C 1A5.

On June 12, 2023, the Company consolidated all its common shares on the basis of five (5) pre-consolidated common shares into one (1) post-consolidated common share.

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, 2023, the Company had a negative cash flow from operations, had an accumulated deficit of $19,844,277 (June 30, 2022 - $17,276,596). Furthermore, the Company incurred a net loss of $2,567,681 during the year ended June 30, 2023 (2022 - $3,196,445). 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, therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company will need to raise funds through either the issuance of share capital, 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 nonproductive. 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 and other

The ongoing effects of the COVID-19 pandemic and political upheavals in various countries have caused significant volatility in commodity prices while these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time.

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").

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, 2023 Ownership Interest	June 30, 2022 Ownership Interest
G2 Energy Holding US Inc. ("G2HUS")	US	100%	100%
G2 Energy TX1 Inc.("G2TX1")	US	100%	100%
G2 Energy TX2 Inc.("G2TX2")	US	100%	100%
G2 Energy USA Corp. ("G2USA")	Canada	100%	100%

(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 and 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 and asset retirement obligations, 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, plant 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.

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. Proved and probable developed oil and gas reserves estimates affect net earnings and assets and liabilities through their impact on depreciation, depletion, 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 on amounts reported in the consolidated financial statements for future periods could be material.

The assessment of whether the going concern assumption is appropriate requires management to consider 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, 2023, there were no new accounting pronouncements that are expected to have a material impact on 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 an insignificant risk of changes in value, to be cash equivalents.

(b) Accounts Receivable

Accounts receivable are comprised of amounts due from customers for purchases of the Company's products and are 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.

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 the 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 the 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 the 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 are 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.

Oil and gas assets are depleted using the unit-of-production method based on estimated proven plus probable resources before royalties, as determined by independent petroleum reservoir engineers.

Production equipment is amortized over its remaining life of 10 years on a straight-line basis.

(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.

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

Financial assets/liabilities	Classification under IFRS 9
Cash	Amortized cost
Trade receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost
Promissory note - Masten	Amortized cost
Loan payable - CEBA	Amortized cost
Lease liability	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 recognized in profit or loss. Other net gains and losses are recognized in other comprehensive losses ("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 recognized 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 recognized 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.

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.

(h) 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. 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.

(i) 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.

(j) 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.

(k) Finance income and expenses

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

(l) 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 are considered to be anti-dilutive, and basic and diluted losses per share are the same.

(m) 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 are US dollars, as this is the currency of the primary economic environment in which these subsidiaries operate. The Company and its Canadian subsidiaries have the Canadian dollar as their functional currency.

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).

(n) 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.

(o) 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.

(p) 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 regard to previous years.

(Expressed in Canadian dollars)

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 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.

(q) 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.

5. Acquisition of Masten

On June 1, 2022, the Company completed the acquisition of the Masten Unit (“Masten”). Masten is a 2,600-acre project located within the prolific billion-barrel Levelland Field in Cochran County, Texas.

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. The fair value of consideration paid is allocated to assets and liabilities acquired.

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

Cash consideration – US$400,000	$	514,879
Cash consideration – US$2,000,000		2,529,565
Promissory note – US$1,600,000 (note 8)		1,943,884
Transaction cost – cash expenditures for legal fees		157,400
Transaction cost – 240,000 closing shares to be issued (a)		151,020
Transaction cost – US$400,000 performance shares (b)		337,837
Transaction cost – 1,000,000 finder’s shares (note 14)		825,000
Transaction cost – 600,000 finder’s warrants (note 14)		243,865
Total purchase price	$	6,703,450

The fair value of the consideration paid was allocated to the acquired assets as follows:

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

(Expressed in Canadian dollars)

a) The 240,000 closing shares were issued on August 30, 2022. The fair value of the contingent shares as of 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	$0.825
Exercise price	$0.825
Expected life (years)	0.25
Volatility	120%
Risk free rate	1.52%
Dividend rate	0%
Discount	46,980

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	$0.825
Exercise price	$0.825
Expected life (years)	0.50
Volatility	120%
Risk free rate	2.15%
Dividend rate	0%
Discount	168,076

6. Property, plant and equipment

	Plant and equipment	**Oil and gas property**	**Total**
Balance, June 30, 2021	$ -	$ -	$ -
Additions (note 5)	404,730	7,302,593	7,707,323
Disposal of royalty interest	-	(696,151)	(696,151)
Depreciation, depletion	(3,373)	(13,242)	(16,615)
Foreign exchange impact	10,151	124,798	134,949
Balance, June 30, 2022	**$ 411,508**	**$ 6,717,998**	**$ 7,129,506**
Asset retirement obligation revision	-	824,226	824,226
Depreciation, depletion	(42,870)	(403,511)	(446,381)
Foreign exchange impact	973	15,879	16,852
Balance, June 30, 2023	**$ 369,611**	**$ 7,154,592**	**$ 7,524,203**

The Masten project had a total royalty payable on its oil and gas revenue of 24.16% (inclusive of royalty payable to Cloudbreak). Accordingly, the Company has a 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 in the year ended June 30, 2022 (the carrying value was determined based on the relative fair value) and a net loss on the disposal of $586,564 was recognized in the consolidated statement of comprehensive loss in the year ended June 30, 2022.

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 until January 18, 2024, and can be repaid at any time without penalty.

(Expressed in Canadian dollars)

On January 1, 2021, the outstanding balance of the CEBA LOC was automatically converted 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 January 18, 2024, the repayment of the remaining 25% of such CEBA Term Loan shall be forgiven. If on January 18, 2024, 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, June 30, 2021	**$**	**31,527**
Accretion expense		3,153
Balance, June 30, 2022	**$**	**34,680**
Accretion expense		4,335
Balance, June 30, 2023	**$**	**39,015**

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 a 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, June 30, 2021	**$**	**-**
Principal acquired (a)		1,943,884
Accretion expense		4,157
Interest expense		16,873
Foreign exchange impact		37,808
Balance, June 30, 2022	**$**	**2,002,722**
Accretion expense		2,550
Interest expense		214,352
Repayment		(820,258)
Foreign exchange impact		56,341
Balance, June 30, 2023	**$**	**1,455,707**
Less: current portion		**(674,924)**
Non-current portion	**$**	**780,783**

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.

b) Subsequent to the year end the Company entered into a forbearance agreement whereby payments required on the Note would be suspended from August 1, 2023 to October 31, 2023.

(Expressed in Canadian dollars)

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 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 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 of June 30, 2023, interest of $363,504 was paid in cash and the remaining accrued interest was $nil.

The Company issued 1,300,000 share purchase warrants to Cloudbreak with an exercise price of C$1.50 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 $3.00 for a period of 10 consecutive trading days. The fair value of the discount attributed to the warrants was recorded as part of the loss on disposal of the 3.25% revenue royalty interest (note 6).

	Total
Balance, June 30, 2021	**$ -**
Principal acquired – US$2,000,000	2,529,564
Loss on disposal of the 3.25% royalty interest	(109,931)
Debt issuance cost – legal fees	(75,933)
Interest expense	25,310
Interest paid	(25,310)
Accretion expense	31,422
Foreign exchange impact	20,223
Balance, June 30, 2022	**$ 2,395,345**
Interest paid	(326,346)
Interest expense	363,504
Accretion expense	90,927
Foreign exchange impact	15,763
Balance, June 30, 2023	**$ 2,539,193**

- 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.

Reinstatement, renewal, and release agreement with Cloudbreak

On January 20, 2023, the Company received a notice of default from Cloudbreak to the Company and its subsidiary, G2 Energy TX1 Inc. ("G2 TX1"), regarding a default under Cloudbreak's US$2 million secured Debenture related to default in payment of an interest installment.

On March 29, 2023, the Company, as Guarantor, entered into a reinstatement, renewal, and release agreement (the

(Expressed in Canadian dollars)

"Agreement"), dated as of March 29, 2023, with its subsidiary, G2 TX as Mortgagor, and Cloudbreak, as Mortgagee, pursuant to which, among other things, the Loan Documents (defined below) will be reinstated to the extent as if no default had occurred.

Pursuant to the terms of the Agreement, Cloudbreak has agreed to, among other things: (i) accept payment from the Company and G2 TX1 in the sums set forth below; (ii) reinstate the Loan Documents to the same extent as if no default had occurred; (iii) withdrawal from the foreclosure proceedings; and (iv) renegotiate (with the assistance of a mediator) certain terms of the Loan Documents relating to working capital requirements and governing jurisdiction. Furthermore, pursuant to the terms of the Agreement, the Company and G2 TX1 shall, subject to receipt of any required regulatory approvals, pay to Cloudbreak: (a) the sum of USD$61,332 cash representing the past due Fourth Quarter 2022 payment on the Debenture of USD$60,000 plus non-default interest in the amount of USD$1,332 cash through February 22, 2023; (b) part of Cloudbreak's attorneys' fees in the amount of USD$20,000 cash; (c) the remaining part of Cloudbreak's attorney's fees in the amount of USD$13,312 by way of transferring or issuing to Cloudbreak 181,400 common shares in the capital of the Company ("Common Shares"); (d) the First Quarter End 2023 payment on the Debenture of USD$60,000 plus a USD$15,000 bonus interest by way of transferring or issuing to Cloudbreak 1,022,000 Common Shares; (e) 953,800 Common Shares transferred or issued to Cloudbreak in escrow by May 31, 2023; and (f) the Second Quarter 2023 payment on the Debenture of $60,000 plus a USD$15,000 bonus interest by way of transferring or issuing 1,022,000 Common Shares.

The original Debenture documents establish that the Company is required to maintain a positive working capital, as defined by the said documents. The conditions for working capital have not been met under the definition of the original agreement, however, on March 29, 2023, the Company and Cloudberak signed the “Reinstatement Renewal and Release Agreement” (Agreement). Under the conditions of this Agreement, the Company’s management is currently in negotiations with Cloudbreak’s management to review and amend certain terms on the Debenture documentation, relating to working capital, in order to accommodate the spirit of the provisions in the Debenture and other loan documents.

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$2,774,760.

Masten’s estimated current expenditure for remediation costs is $2,102,768 (US$1,631,157) on June 30, 2023, reflecting anticipated cash flows to be incurred over approximately the next 40 years (with the inflation rate of 2.54%, and risk-free discount rate of 3.91%). The Company recorded an accretion of $82,256 included in finance cost on the consolidated statement of loss and comprehensive loss for the year ended June 30, 2023. The discounted liability for the decommissioning and restoration provision is as follows:

	Total
Balance, June 30, 2021	**$ -**
Masten acquisition	1,254,397
Accretion expense	3,074
Foreign exchange impact	24,201
Balance, June 30, 2022	**$ 1,281,672**
Asset retirement obligation revision	824,226
Accretion expense	82,256
Foreign exchange impact	56,006
Balance, June 30, 2023	**$ 2,244,160**

(Expressed in Canadian dollars)

11. Lease liability and right of use assets

Right of use asset – office	**June 30, 2023**	**June 30, 2022**
Opening balance	$ -	$ -
Recognition of right of use asset	66,273	-
Less: depreciation	(34,701)	-
	$ 31,572	**$ -**
Lease liability		
Opening balance	$ -	$ -
Recognition of lease liability	66,273	-
Lease payments	(40,224)	-
Lease interest	7,231	-
	$ 33,280	**$ -**
Lease liability – current	(33,280)	-
Lease liability – non-current	-	-
Undiscounted lease payment		
Not later than a year	$ 33,280	$ -
Later than a year	-	-
	$ 33,280	**$ -**

The Company's lease relates to an office lease. Interest expense on the lease liabilities for the year ended June 30, 2023, is $5,681 (2022 - $nil). Depreciation of right-to-use assets is calculated using the straight-line method over the remaining lease term.

12. Cost of sales

	Years ended June 30,	
	2023	**2022**
Operating cost	$ 403,189	$ 23,613
Operating overhead	128,010	9,987
Oil and gas severance tax	178,158	19,797
Depreciation	97,502	3,373
Depletion	348,879	13,242
	$ 1,155,738	**$ 70,012**

13. Related Party Transactions

Key Management Personnel Compensation

The Company has determined that the key management personnel of the Company consist of its officers and directors. In addition to the fees paid to officers and fees paid to directors, the Company also provides compensation through participation in the Company's stock option plan. The compensation included in operating expenses relating to key management personnel for the year ended June 30, 2023 was $924,438 (2022 – $678,719). The compensation included in the share-based payments relating to key management personnel for the year ended June 30, 2023, was $nil (2022 – $127,159).

14. 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, 2023, there was a total of 25,835,588 common shares outstanding (June 30, 2022 – 10,157,183).

Issued during the year ended June 30, 2023

- On August 30, 2022, the Company issued 240,000 common shares as part of the Masten acquisition (note 5).
- On October 21, 2022, the Company completed a non-brokered private placement financing of a total of $642,500 through the issuance of 1,285,000 units at a price of $0.50 per unit. Each unit comprises one common share and one-half share purchase warrant (exercise price of $1.00 with a 2-year life).
- On March 22, 2023, the Company completed a non-brokered private placement financing of a total of $516,736 ($206,080 in cash and settled $310,656 in debt to certain creditors) through the issuance of 5,167,360 units at a price of $0.10 per unit. Each unit comprises one common share and one share purchase warrant (exercise price of $0.25 with a 3-year life).
- On March 22, 2023, the Company issued 468,000 common shares at a deemed price of $0.25 to settle $117,000 in debt.
- On May 11, 2023, the Company issued 1,022,000 common shares as part of the Coudbreak agreement (note 9).
- On June 30, 2023, the Company settled $374,802 in debt to certain creditors through the issuance of 7,496,045 units at a price of $0.05 per unit. Each unit comprises one common share and one share purchase warrant (exercise price of $0.08 with a 2-year life).

Issued during the year ended June 30, 2022

- On September 7, 2021, the Company completed a non-brokered private placement financing issuing an aggregate of 1,274,000 units at a price of $0.50 per unit, for gross proceeds of $637,000. Each Unit comprises 1 common share and 1 share purchase warrant (exercise price of $0.75, expire on September 7, 2023). The total finder's fee and transactional cost were $32,117, resulting in net proceeds of $604,883.
- On October 4, 2021, the Company completed a non-brokered private placement financing issuing an aggregate of 1,123,990 units at a price of $0.50 per unit, for gross proceeds of $561,995. Each Unit comprises 1 common share and 1 share purchase warrant (exercise price of $0.75, expire on October 4, 2023). The total finder's fee and transactional cost were $35,213, resulting in net proceeds of $526,782.
- On December 30, 2021, the Company completed a non-brokered private placement financing issuing an aggregate of 517,000 units at a price of $0.50 per unit, for gross proceeds of $258,500. Each Unit comprises 1 common share and 1 share purchase warrant (exercise price of $0.75, expire on December 30, 2023). The total finder's fee and transactional cost were $2,298, resulting in net proceeds of $256,202.
- On February 3, 2022, the Company closed a non-brokered private placement by issuing 350,000 units at a price of $0.50 per unit for total gross proceeds of $175,000. Each unit comprises 1 common share of the Company and 1 transferable common share purchase warrant (exercise price of $0.75 per warrant and an expiry date of February 3, 2023). The total finder's fee and transactional cost were $19,216, resulting in net proceeds of $155,784.
- On May 27, 2022, the Company closed a non-brokered private placement by issuing 1,201,000 units at a price of $1.00 per unit for total gross proceeds of $1,201,000. Each unit comprises 1 common share of the Company and 1/2 transferable common share purchase warrant (exercise price of $1.50 per warrant and an expiry date of November 27, 2023). The total finder's fee and transactional cost were $66,902, resulting in net proceeds of $1,134,098.
- On June 1, 2022, the Company issued 1,000,000 finder's common shares (note 5) as part of the Masten acquisition. The fair value of the finder's shares was $825,000.
- On June 16, 2022, the Company issued 16,000 common shares at $0.75 (proceeds of $12,000) due to warrants exercised.

(Expressed in Canadian dollars)

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.

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 $0.50 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 630,000 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 $1.00 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 the 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%.

The following table summarizes the changes during the year ended June 30, 2023, and 2022:

	June 30, 2023		June 30, 2022	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding – beginning of year	750,000	0.95	120,000	0.75
Cancelled	(220,000)	0.95	-	-
Granted	-	-	630,000	1.00
Outstanding – end of year	530,000	0.95	750,000	0.95
Exercisable – end of year	422,500	0.95	277,500	0.95

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2023:

Exercise Price	Expiry Date	Number of Options Outstanding and Exercisable	Number of Options Exercisable	Remaining Contracted Life (Years)
$ 1.00	June 2, 2027	430,000	322,500	3.93
$ 0.75	May 5, 2026	100,000	100,000	2.85
$ 0.95		530,000	422,500	3.67

During the year ended June 30, 2023, the Company recognized share-based compensation expense of $253,972 for the options vested (2022 - $135,780) in share-based payment reserve.

(Expressed in Canadian dollars)

Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2021	3,376,600	$0.75
Exercised*	(16,000)	$0.75
Issued – September 7, 2021	1,274,000	$0.75
Issued – October 4, 2021	1,123,990	$0.75
Issued – December 30, 2021	517,000	$0.75
Issued – February 2, 2022	350,000	$0.75
Issued – May 27, 2022	600,500	$1.50
Issued – May 27, 2022 broker's warrants	60,880	$1.50
Issued – May 31, 2022 – Cloudbreak (note 9)	1,300,000	$1.50
Issued – June 2, 2022 – Masten acquisition (note 5)**	600,000	$1.50
Balance, June 30, 2022	9,186,970	$0.95
Issued – October 21, 2022	642,500	$1.00
Issued – March 22, 2023	5,167,360	$0.25
Issued – June 30, 2023	7,496,045	$0.08
Balance, June 30, 2023	22,492,875	$0.50

*The share price on the date when the warrants were exercised was $0.60.
** On June 2, 2022, the Company issued 600,000 finder's warrants related to the Masten acquisition (see note 5), the fair value of $243,865 was determined based on the following assumptions with the Black Scholes valuation model – fair value of common share at grant of $0.825, exercise price of $1.5, expected life of the warrant (2 years), volatility of 120%, dividend rate of 0%, and risk free rate of 2.76%.

As of June 30, 2023, the Company had the following share purchase warrants:

Exercise Price	Expiry Date	Number of Warrants	Remaining Contracted Life (Years)
$0.08	June 30, 2025	7,496,045	2.00
$0.25	March 22, 2026	5,167,360	2.73
$1.00	October 21, 2024	642,500	1.31
$1.50	June 2, 2024	600,000	0.93
$0.50*	May 31, 2024	1,300,000	0.92
$1.50	November 27, 2023	661,380	0.41
$0.75	February 3, 2024	350,000	0.60
$0.75	December 30, 2023	517,000	0.50
$0.75	October 4, 2023	1,123,990	0.26
$0.75	September 7, 2023	1,274,000	0.19
$0.75**	February 3, 2025	3,360,600	1.60
$0.45		22,492,875	1.04

*The exercise price was amended from $1.50 to $0.50.
**The expiry date was extended from February 3, 2023 to February 3, 2025.

15. 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 adjusts 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 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, 2023, and June 30, 2022.

16. Commitments

Aside from the royalty payments (note 9), asset retirement obligation (note 10), the promissory note (note 8), Cloudbreak debenture (note 9), lease liability (note 11), and CEBA loan (note 7), the Company had no other significant commitments or contractual obligations with any parties related to executive compensation, consulting arrangements, or other matters.

17. Financial Instruments and Risk Management

The Company is exposed in varying degrees to a variety of financial instruments 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.

The carrying value of cash, trade receivables, accounts payable and accrued liabilities, 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 amortized 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 other receivables are dues from the government of Canada. 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. The impact of a 10% increase/decrease in the US dollar exchange rate on the Company's loss before income tax would be $64,900.

(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 are 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, 2023, the Company had a cash balance of $109,507 to settle current liabilities of $4,054,732. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Accounts payable and accrued liabilities, loan payable, Cloudbreak debenture, and amounts due 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.

The table below summarizes the maturity profile of the Company's financial liabilities:

June 30,2023	Current within 1 year	Non-current 1-5 years
Accounts payable and accrued liabilities	$604,638	-
Due to related parties	$163,682	-
Promissory note - Masten	$ 674,924	$780,783
Debenture – Cloudbreak	$2,539,193	-
Loan payable - CEBA	$39,015	-
Lease liability	$33,280	-

June 30,2022	Current within 1 year	Non-current 1-5 years
Accounts payable and accrued liabilities	$406,040	-
Due to related parties	$451,101	-
Promissory note - Masten	$585,351	$1,417,371
Debenture – Cloudbreak	-	$2,395,345
Loan payable - CEBA	-	$34,680

(f) Concentration risk related to Sales and Accounts Receivable

Two customers account for 100% of the revenue for the year ended June 30, 2023. Accounts receivables, which the operator of the oil and gas property collects, are due from the two customers.

18. 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.

(Expressed in Canadian dollars)

19. 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.

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 not 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.

TriVsta 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. The Deposit was written off as of June 30, 2022, to corporate development expense. During year ended June 30, 2023, the Company settled with Trivista and the Deposit was partially refunded for $276,812. This has been recorded as a recovery of the corporate development costs.

20. Tax provision

The Company operates in Canada and US and is 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, 2023	June 30, 2022
Statutory income tax rate	27%	27%
Income tax recovery at statutory rate	$ (693,274)	$ (862,787)
Tax effect of:		
Permanent differences and other	270,452	108,064
Change in unrecognized deferred income tax assets	422,822	755,659
Income tax provision	$ -	$ 936

(Expressed in Canadian dollars)

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

	June 30, 2022	June 30, 2022
Deferred income tax assets		
Non-capital losses carried forward	$ 3,155,689	$ 2,744,476
Capital losses carried forward	379,224	-
Share issuance costs	26,462	52,098
Property and equipment	39,511	2,266
Total deferred income tax assets	3,600,886	2,798,840
Unrecognized deferred income tax assets	(3,600,886)	(2,798,840)
Net deferred income tax assets	$ -	$ -

As at June 30, 2023, the Company has non-capital losses carried forward of $11,699,000 (2022 - $10,164,000) with expiry from 2037 to 2042 in Canada which are available to offset future years' taxable income.

As at June 30, 2023, the Company has a net-capital loss carried forward of $1,404,500 (2022 - $1,404,500) in Canada that does not expire, which is available to offset future years' taxable capital gains.

As at June 30, 2023, the Company has non-capital losses carried forward of $641,000 (2022 - $nil) in the USA with expiry in 2043, which are available to offset future years' taxable income.

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

21. Subsequent Events

Common Shares Issuance

- On July 12, 2023, the Company completed a non-brokered private placement financing for a total of $198,800 through the issuance of 3,976,000 units at a price of $0.05 per unit. Each unit comprises one common share and one share purchase warrant (exercise price of $0.08 with a 2-year life) (Note 1).

- On August 4, 2023, the Company completed a non-brokered private placement financing for gross proceeds of $102,500 ($65,000 in cash and settled $37,500 in debt to certain creditors) through the issuance of 2,050,000 units at a price of $0.05 per unit. Each unit comprises one common share and one share purchase warrant (exercise price of $0.08 with a 2-year life) (Note 1).

- On October 30, 2023, the Company completed a non-brokered private placement financing for gross proceeds of $155,560 ($79,000 in cash and settled $76,560 in debt to certain creditors) through the issuance of 3,111,200 units at a price of $0.05 per unit. Each unit comprises one common share and one share purchase warrant (exercise price of $0.08 with a 2-year life).