G2 Energy Corp.

Condensed Interim Consolidated Financial Statements

Three Months Ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

(Prepared by management)

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these consolidated financial statements.

G2 ENERGY CORP.

Condensed Interim Consolidated Statements of Financial Position (Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Notes	September 30, 2023 - $ -	June 30 2023 - $ -
ASSETS			
Current assets			
Cash		13,054	109,507
Trade receivables		92,937	24,640
Prepaid and other receivables		17,463	7,081
		123,454	141,228
Right of use asset	11	22,108	31,572
Property, plant and equipment	6	7,408,428	7,524,203
TOTAL ASSETS		7,553,990	7,697,003
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		586,227	604,638
Due to related parties		277,339	163,682
Promissory note - Masten	8	689,197	674,924
Debenture – Cloudbreak	9	2,663,514	2,539,193
Loan payable - CEBA	7	39,478	39,015
Lease liability	11	34,494	33,280
		4,290,249	4,054,732
Non-current liabilities			
Asset retirement obligation	10	2,313,193	2,244,160
Promissory note - Masten	8	772,936	780,783
		3,086,129	3,024,943
TOTAL LIABILITIES		7,376,378	7,079,675
SHAREHOLDERS' EQUITY			
Share capital	13	17,241,753	16,940,453
Shares to be issued		405,848	516,648
Reserves		3,248,731	3,230,934
Accumulated other comprehensive income		(367,321)	(226,430)
Deficit		(20,351,399)	(19,844,277)
TOTAL SHAREHOLDERS' EQUITY		177,612	617,328
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		7,553,990	7,697,003

Going concern (Note 1)
Commitments (Notes 16)
Contingencies (Note 19)
Subsequent events (Note 20)

Approved and authorized for issuance by the Board of Directors on November ??, 2023:

/s/ "Slawomir Smulewicz" — Slawomir Smulewicz, Director

/s/ "John Costigan" — John Costigan, Director

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

G2 ENERGY CORP.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Notes	Three months ended September 30 2023 - $ -	2022 - $ -
Revenues		348,840	448,358
Cost of Sales	12	(321,587)	(211,425)
Gross Profit		27,253	236,933
Operating Expenses			
Consulting and management fees	13	(163,855)	(166,157)
Corporate development fees (recovery)	19	-	(15,593)
Depreciation – right of use asset	11	(9,464)	(9,463)
General and administrative	13	(64,425)	(110,817)
Professional fees		(80,427)	(1,503)
Travel		(24,226)	(10,557)
Share-based payments	13,14	(17,797)	(97,813)
Total Operating Expenses		(360,194)	(411,903)
Operating Loss		(332,941)	(174,970)
Other Expense			
Finance expense		(174,626)	(173,397)
Foreign exchange gain (loss)		445	136,757
Total Other Expense		(174,181)	(36,640)
Loss before income tax		(507,122)	(211,610)
Tax expense (recovery)		-	(10,591)
Net loss		(507,122)	(222,201)
Foreign currency translation		(140,891)	(34,537)
Comprehensive loss		(648,013)	(256,738)
Basic and diluted loss per share		(0.02)	(0.02)
Weighted average common shares outstanding - basic and diluted		30,563,088	10,238,087

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

G2 ENERGY CORP.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Three months ended September 30	
	2023	**2022**
	- $ -	- $ -
Cash from (used in):		
Operating Activities		
Net loss	(507,122)	(222,201)
Items not involving cash:		
Share-based payments	17,797	97,813
Depletion	96,036	40,206
Depreciation	33,864	19,703
Finance cost - non-cash	174,626	173,331
Foreign exchange gain on non-monetary items	(8,361)	(136,757)
Change in non-cash working capital items:		
Trade receivables	(68,297)	-
Prepaid and other receivables	(10,382)	57,972
Accounts payable and accrued liabilities	(18,411)	(46,326)
Due from related parties	113,657	40,162
Net cash used in operating activities	(176,593)	23,903
Investing Activities		
Cash used in investing activities	-	-
Financing activities		
Proceeds from private placement, net of share issuance cost	263,800	-
Proceeds from warrants exercised	-	-
Proceeds from related party loan	-	-
Proceeds from loans		-
Cloudbreak – debt issuance cost	-	-
Proceeds – advance for private placement	(110,800)	-
Promissory note - Masten repayment	(69,800)	(202,094)
Debenture – Cloudbreak repayment	(40,560)	-
Lease payment	-	(6,929)
Cash provided by financing activities	42,640	(209,023)
(Decrease) increase in cash and cash equivalents	(96,453)	(185,120)
Cash and cash equivalents, beginning	109,507	201,898
Cash and cash equivalents, ending	13,054	16,778

Supplementary Information:

Cash interest paid	(94,201)	(52,192)

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

G2 ENERGY CORP.
Condensed Interim 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, 2023	25,835,588	16,940,453	1,852,374	1,342,885	35,675	516,648	(226,430)	(19,844,277)	617,328
Stock based compensation	-	-	17,797	-	-	-	-	-	17,797
Share issuance – private placement (note 14)	5,276,000	263,800	-	-	-	(263,800)	-	-	-
Share issuance – shares for debt (note 14)	750,000	37,500	-	-	-	-	-	-	37,500
Shares to be issued	-	-	-	-	-	153,000	-	-	153,000
Cumulative translation adjustments	-	-	-	-	-	-	(140,891)	-	(140,891)
Net loss	-	-	-	-	-	-	-	(507,122)	(507,122)
Balance, September 30, 2023	31,861,588	17,241,753	1,870,171	1,342,885	35,675	405,848	(367,321)	(20,351,399)	177,612
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

(The accompanying notes are an integral part of these condensed interim 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 condensed interim 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 September 30, 2023, the Company had a negative cash flow from operations, had an accumulated deficit of $20,351,399 (June 30, 2023 - $19,844,277). 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 condensed interim 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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(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.

(Expressed in Canadian dollars)

3. Proposed New Accounting Policies

As of September 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

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual financial statements for the year ended June 30, 2023.

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, 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**
Depreciation, depletion	(24,400)	(96,036)	(120,436)
Foreign exchange impact	828	16,024	16,852
Balance, September 30, 2023	**$ 346,039**	**$ 7,074,580**	**$ 7,420,619**

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, 2022	**$**	**34,680**
Accretion expense		4,335
Balance, June 30, 2023	**$**	**39,015**
Accretion expense		463
Balance, September 30, 2023	**$**	**39,478**

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, 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**
Accretion expense		(8,569)
Interest expense		53,641
Repayment		(69,800)
Foreign exchange impact		31,154
Balance, September 30, 2023	**$**	**1,462,133**
Less: current portion		**(689,197)**
Non-current portion	**$**	**772,936**

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 September 30, 2023, interest of $392,216 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, 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**
Interest paid	(40,560)
Interest expense	80,461
Accretion expense	26,017
Foreign exchange impact	58,403
Balance, September 30, 2023	**$ 2,663,514**

- 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 "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.

(Expressed in Canadian dollars)

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

	Total
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**
Accretion expense	21,399
Foreign exchange impact	47,634
Balance, September 30, 2023	**$ 2,313,193**

(Expressed in Canadian dollars)

11. Lease liability and right of use assets

Right of use asset – office	**September 30, 2023**	**June 30, 2023**
Opening balance	$ 31,572	$ -
Recognition of right of use asset	-	66,273
Less: depreciation	(9,464)	(34,701)
	$ 22,108	**$ 31,572**
Lease liability		
Opening balance	$ 33,280	$ -
Recognition of lease liability	-	66,273
Lease payments	-	(40,224)
Lease interest	1,214	7,231
	$ 34,494	**$ 33,280**
Lease liability – current	(34,494)	(33,280)
Lease liability – non-current	-	-
Undiscounted lease payment		
Not later than a year	$ 34,494	$ 33,280
Later than a year	-	-
	$ 34,494	**$ 33,280**

The Company's lease relates to an office lease. Depreciation of right-to-use assets is calculated using the straight-line method over the remaining lease term.

12. Cost of sales

	Three months ended September 30,	
	2023	**2022**
Operating cost	$ 161,806	$ 84,171
Operating overhead	13,008	31,834
Oil and gas severance tax	26,337	44,974
Depreciation	24,400	10,240
Depletion	96,036	40,206
	$ 321,587	**$ 211,425**

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 three months ended September 30, 2023 was $131,605 (2022 – $136,482). The compensation included in the share-based payments relating to key management personnel for the three months ended September 30, 2023, was $17,797 (2022 – $91,602).

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 September 30, 2023, there was a total of 31,861,588 common shares outstanding (June 30, 2023 – 25,835,588).

Issued during the three months ended September 30, 2023

- 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).

- 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).

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).

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.

(Expressed in Canadian dollars)

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 three months ended September 30, 2023, and 2022:

	September 30, 2023		June 30, 2023	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding – beginning of period	530,000	0.95	750,000	0.95
Cancelled	-	-	(220,000)	0.95
Granted	-	-	-	-
Outstanding – end of period	530,000	0.95	530,000	0.95
Exercisable – end of period	422,500	0.95	422,500	0.95

The following table summarizes information about stock options outstanding and exercisable as of September 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	3.7
$ 0.75	May 5, 2026	100,000	100,000	2.5
$ 0.95		530,000	422,500	3.4

During the three months ended September 30, 2023, the Company recognized share-based compensation expense of $17,797 for the options vested (2022 - $97,813) in share-based payment reserve.

Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price
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
Issued – July 12, 2023	3,976,000	$0.08
Issued – August 4, 2023	2,050,000	$0.08
Expired	(1,274,000)	$0.75
Balance, September 30, 2023	27,244,875	$0.40

(Expressed in Canadian dollars)

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

Exercise Price	Expiry Date	Number of Warrants	Remaining Contracted Life (Years)
$0.25	March 22, 2026	5,167,360	2.5
$0.08	August 4, 2025	2,050,000	1.8
$0.08	July 12, 2025	3,976,000	1.8
$0.08	June 30, 2025	7,496,045	1.8
$0.75**	February 3, 2025	3,360,600	1.3
$1.00	October 21, 2024	642,500	1.1
$1.50	June 2, 2024	600,000	0.7
$0.50*	May 31, 2024	1,300,000	0.7
$0.75	February 3, 2024	350,000	0.3
$0.75	December 30, 2023	517,000	0.2
$1.50	November 27, 2023	661,380	0.2
$0.75	October 4, 2023	1,123,990	0.0
$0.35		27,244,875	1.0

**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 September 30, 2023.

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 $14,600.

(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 September 30, 2023, the Company had a cash balance of $13,054 (June 30, 2023 - $109,507) to settle current liabilities of $4,290,249 (June 30, 2023 - $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.

(f) Concentration risk related to Sales and Accounts Receivable

Two customers account for 100% of the revenue for the three months ended September 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.

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. Subsequent Events

Common Shares Issuance

- On October 30, 2023, the Company completed a non-brokered private placement financing for gross proceeds of $155,605 ($79,000 in cash and settled $76,605 in debt to certain creditors) through the issuance of 3,112,100 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).

- 1,785,370 share purchase warrants expired.