



G2 ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2023

(Expressed in Canadian dollars)

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.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

G2 ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Expressed in Canadian dollars)

	Notes	December 31, 2023	June 30, 2023
		\$	\$
ASSETS			
Current assets			
Cash		6,722	109,507
Trade receivables		76,307	24,640
Prepaid and other receivables		8,398	7,081
		91,427	141,228
Right of use asset	11	12,644	31,572
Property, plant and equipment	6	7,263,656	7,524,203
TOTAL ASSETS		7,367,727	7,697,003
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		811,610	604,638
Due to related parties		308,767	163,682
Promissory note - Masten	8	718,405	674,924
Debenture – Cloudbreak	9	2,707,717	2,539,193
Loan payable - CEBA	7	40,000	39,015
Lease liability	11	16,690	33,280
		4,603,189	4,054,732
Non-current liabilities			
Asset retirement obligation	10	2,283,996	2,244,160
Promissory note - Masten	8	614,211	780,783
		2,898,207	3,024,943
TOTAL LIABILITIES		7,501,396	7,079,675
SHAREHOLDERS' EQUITY			
Share capital	13	17,359,301	16,940,453
Shares to be issued		397,837	516,648
Reserves		3,292,031	3,230,934
Accumulated other comprehensive income		(244,553)	(226,430)
Deficit		(20,938,285)	(19,844,277)
TOTAL SHAREHOLDERS' EQUITY		(133,669)	617,328
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		7,367,727	7,697,003

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

(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
(Unaudited)
(Expressed in Canadian dollars)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2023	2022	2023	2022
				\$	\$
Revenues		518,394	464,716	867,234	913,074
Cost of Sales	12	371,804	268,718	693,391	480,143
Gross Profit		146,590	195,998	173,843	432,931
Operating Expenses					
Consulting and management fees	13	150,926	266,259	314,781	432,416
Corporate development fees (recovery)	19	-	(15,593)	-	-
Depreciation – right of use asset	11	9,464	9,463	18,928	18,926
General and administrative	13	141,172	150,644	205,597	261,461
Professional fees		224,309	232,957	304,736	234,460
Travel		108	2,687	24,334	13,244
Share-based payments	13,14	12,187	81,014	29,984	178,827
Total Operating Expenses		538,166	727,431	898,360	1,139,334
Operating Loss		(391,576)	(531,433)	(724,517)	(706,403)
Other Expense					
Finance expense		189,963	161,616	364,589	335,013
Foreign exchange gain (loss)		5,347	460,705	4,902	323,948
Total Other Expense		195,310	622,321	369,491	658,961
Loss before income tax		(586,886)	(1,153,754)	(1,094,008)	(1,365,364)
Tax expense (recovery)		-	29,388	-	39,979
Net loss		(586,886)	(1,183,142)	(1,094,008)	(1,405,343)
Foreign currency translation		159,014	286,740	18,123	321,277
Comprehensive loss		(745,900)	(1,469,882)	(1,112,131)	(1,726,620)
Basic and diluted loss per share		(0.02)	(0.11)	(0.03)	(0.13)
Weighted average common shares outstanding - basic and diluted		33,958,266	11,148,902	32,260,677	10,813,494

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

G2 ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended December 31		Six months ended December 31	
	2023	2022	2023	2022
	\$	\$	\$	\$
Operating Activities				
Net loss for the period	(586,886)	(1,183,142)	(1,094,008)	(1,405,343)
Items not involving cash:				
Share-based payments	12,187	81,014	29,984	178,827
Depletion	164,511	29,497	260,547	69,703
Depreciation	(14,936)	20,514	18,928	40,217
Finance cost - non-cash	(204,959)	460,772	(30,333)	634,103
Foreign exchange gain on non-monetary items	231,996	114,805	223,635	(21,952)
Change in non-cash working capital items:				
Trade receivables	16,630	158,021	(51,667)	158,021
Prepaid and other receivables	9,065	(126,298)	(1,317)	(68,326)
Accounts payable and accrued liabilities	187,838	203,726	206,927	157,400
Due from related parties	31,428	(110,351)	145,085	(70,189)
Cash used in operating activities	(153,126)	(351,442)	(292,219)	(327,539)
Financing activities				
Proceeds from private placement, net of share issuance cost	186,205	792,387	450,005	792,387
Proceeds – advance for private placement	(8,011)	(151,020)	(118,811)	(151,020)
Promissory note - Masten repayment	(53,291)	(217,452)	(123,091)	(419,546)
Debenture – Cloudbreak repayment	40,560	(81,264)	-	(81,264)
Lease payment	(18,669)	(3,464)	(18,669)	(10,393)
Cash provided by financing activities	146,794	339,187	189,434	130,164
Change in cash	(6,332)	(12,255)	(102,785)	(197,375)
Cash and cash equivalents, beginning	13,054	16,778	109,507	201,898
Cash and cash equivalents, ending	6,722	4,523	6,722	4,523

(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
(Unaudited)
(Expressed in Canadian dollars)

		Share capital		Share-based payments reserve	Warrants reserve	Reserves	Shares to be issued	Accumulated other comprehensive income	Deficit	Total shareholders' equity
	Number of shares	\$	\$	\$	\$	\$	\$	\$	\$	\$
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	
Stock based compensation	-	-	29,984	-	-	-	-	-	29,984	
Share issuance – private placement (note 14)	6,856,000	327,000	-	15,800	-	(271,811)	-	-	70,989	
Share issuance – shares for debt (note 14)	2,281,200	98,748	-	15,313	-	-	-	-	114,061	
Share issue costs	-	(6,900)	-	-	-	-	-	-	(6,900)	
Shares to be issued	-	-	-	-	-	153,000	-	-	153,000	
Cumulative translation adjustments	-	-	-	-	-	-	(18,123)	-	(18,123)	
Net loss	-	-	-	-	-	-	-	(1,094,008)	(1,094,008)	
Balance, December 31, 2023	34,972,788	17,359,301	1,882,358	1,373,998	35,675	397,837	(244,553)	(20,938,285)	(133,669)	

G2 ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2023

(Expressed in Canadian dollars)

NOTES TO THE 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.

These condensed consolidated interim financial statements have been prepared on the assumption that the Corporation will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations, and do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

Details of deficit and working capital of the Corporation are as follows:

	December 31, 2023	June 30, 2023
	\$	\$
Deficit	(20,938,285)	(19,844,277)
Working capital (deficiency)	(4,511,762)	(3,913,504)

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.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting.

G2 ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2023

(Expressed in Canadian dollars)

The Interim Financial Statements should be read in conjunction with the audited annual financial statements of the Company for the years ended June 30, 2023 and 2022 and the notes thereto (the "Annual Financial Statements"). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

These financial statements were authorized for issue by the Board of Directors, on February 27, 2024.

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.

Functional and presentation currency

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\$").

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.

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Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2023

(Expressed in Canadian dollars)

3. PROPOSED NEW ACCOUNTING POLICIES

As of December 31, 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 years ended June 30, 2023 and 2022.

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

- 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

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Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2023

(Expressed in Canadian dollars)

- 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	(21,626)	(238,921)	(260,547)
Foreign exchange impact	(1,715)	1,715	-
Balance, December 31, 2023	346,270	6,917,386	7,263,656

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.

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.

Balance, June 30, 2022	\$	34,680
Accretion expense		4,335
Balance, June 30, 2023	\$	39,015
Accretion expense		985
Balance, December 31, 2023	\$	40,000

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Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2023

(Expressed in Canadian dollars)

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.

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	(23,006)
Interest expense	122,088
Repayment	(223,303)
Foreign exchange impact	1,130
Balance, December 31, 2023	1,332,616
Less: current portion	718,405
Non-current portion	614,211

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 in exchange for 3 additional interest payments of US\$5,163.

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 December 31, 2023, interest of \$392,216 was paid in cash and the remaining accrued interest was \$158,796.

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).

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Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2023

(Expressed in Canadian dollars)

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	162,198
Accretion expense	53,527
Foreign exchange impact	(6,641)
Balance, September 30, 2023	2,707,717

- 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.

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.

On March 29, 2023, the Company and Cloudbreak signed the "Reinstatement Renewal and Release Agreement"

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(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:

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	43,137
Foreign exchange impact	(3,301)
Balance, December 31, 2023	2,283,996

11. LEASE LIABILITY AND RIGHT OF USE ASSETS

	December 31, 2023	June 30, 2023
Right of use asset – office		
Opening balance	31,572	-
Recognition of right of use asset	-	66,273
Less: depreciation	(18,928)	(34,701)
	12,644	31,572
Lease liability		
Opening balance	33,280	-
Recognition of lease liability	-	66,273
Lease payments	(18,669)	(40,224)
Lease interest	2,079	7,231
	16,690	33,280
Lease liability – current	16,690	33,280
Lease liability – non-current	-	-
Undiscounted lease payment		
Not later than a year	16,690	33,280
Later than a year	-	-
	16,690	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.

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12. COST OF SALES

	Three months ended December 31		Six months ended December 31,	
	2023	2022	2023	2022
Operating cost	198,818	150,042	360,624	234,213
Operating overhead	20,983	33,092	33,991	64,926
Oil and gas severance tax	11,892	45,036	38,229	90,010
Depreciation	10,897	11,051	21,626	21,291
Depletion	129,214	29,497	238,921	69,703
	371,804	268,718	693,391	480,143

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 period ended December 31, 2023, was \$203,860 (2022 – \$444,975). The compensation included in the share-based payments relating to key management personnel for the period ended December 31, 2023, was \$29,984 (2022 – \$178,827).

14. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As of December 31, 2023, there was a total of 34,972,788 common shares outstanding (June 30, 2023 – 25,835,588).

Issued during the period ended December 31, 2023

- 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 3,111,200 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). The Company incurred share issue costs of \$6,900 in cash, plus 138,000 warrants.
- On August 1, 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).
- On July 11, 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).
-

Issued during the year ended June 30, 2023

- 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).
- On May 11, 2023, the Company issued 1,022,000 common shares in the capital of the Issuer at a deemed price of \$0.10 per Common Share to settle \$102,200 in debt with Debenture holder Cloudbreak Discovery PLC ("Cloudbreak") as part of the Cloudbreak agreement (note 9).

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- On March 21, 2023, the Company issued 468,000 common shares at a deemed price of \$0.25 to settle \$117,000 in debt.
- On March 21, 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 October 20, 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 August 30, 2022, the Company issued 240,000 common shares as part of the Masten acquisition (note 5).

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 three months ended December 31, 2023, and 2022:

	December 31, 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	530,000	0.95	422,500	0.95

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The following table summarizes information about stock options outstanding and exercisable as of December 31, 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 period ended December 31, 2023, the Company recognized share-based compensation expense of \$29,984 for the options vested (2022 - \$178,827) 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	1,340,000	0.08
Issued – October 30, 2023	3,249,200	0.08
Expired	(3,576,370)	0.89
Balance, December 31, 2023	27,481,705	\$0.27

As of December 31, 2023, the Company had the following share purchase warrants:

Exercise Price	Expiry Date	Number of Warrants	Remaining Contracted Life (Years)
\$0.25	21-Mar-26	5,167,360	2.2
\$0.08	30-Oct-25	3,249,200	1.8
\$0.08	01-Aug-25	1,340,000	1.6
\$0.08	11-Jul-25	3,976,000	1.5
\$0.08	30-Jun-25	7,496,045	1.5
\$0.75	03-Feb-25	3,360,600	1.1
\$1.00	14-Oct-24	70,000	0.8
\$1.00	21-Oct-24	572,500	0.8
\$1.50	02-Jun-24	600,000	0.4
\$0.50	31-May-24	1,300,000	0.4
\$0.75	03-Feb-24	350,000	0.1
\$0.27		27,481,705	

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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 December 31, 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

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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 December 31, 2023, the Company had a cash balance of \$6,722 (June 30, 2023 - \$109,507) to settle current liabilities of \$4,732,046 (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.

The table below summarizes the Corporation's contractual obligations as at December 31, 2023:

Payment Due by Year	Recognized in Financial Statements	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Accounts payable and accrued liabilities	yes	811,610	811,610	-	-	-
Due to related parties	yes	308,767	308,767	-	-	-
Promissory note - Masten	yes	1,332,616	718,405	614,211	-	-
Debenture – Cloudbreak	yes	2,707,717	2,707,717	-	-	-
Loan payable - CEBA	yes	40,000	40,000	-	-	-
Minimum lease payments	no	17,321	17,321	-	-	-
		5,218,031	4,603,820	614,211	-	-

(f) Concentration risk related to Sales and Accounts Receivable

Two customers account for 100% of the revenue for the period ended December 31, 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.

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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.

TriVista Oil Co. LLC ("Trivista")

On September 7, 2021, the Company paid a deposit ("Deposit") of \$506,880 (US\$400,000) to TriVista Oil Co. LLC ("Trivista") as part of a purchase and sale agreement. On October 21, 2021, the Company provided a Default Notice as the Company alleged certain title defects, defaults and misrepresentation by Trivista. The Company has demanded the escrow agent to release the Deposit back to the Company. 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.

Performance Analysis LLC

On May 5, 2023, Performance Analytics Group, LLC ("Plaintiff") and G2 Energy Corp. ("Defendant") signed the Settlement Agreement to settle the terms of cash payment and Stock Certificates delivery. G2 Energy agreed to provide Plaintiff with an agreed judgment.

On August 17, 2023, the Agreed Judgment issued in case No. 23-02-02616 was signed by the Judge of the 284th Judicial District Court of Montgomery County, Texas.

On December 19, 2023, G2 Energy Corp. received a Montgomery County, Texas, Order appointing a post-judgment receiver, in order to satisfy the amount owed to the former COO Jim Tague (USD \$70,000). This amount has been paid in full in January 2024, and the Court order to terminate the receiver was signed on January 23, 2024.

20. SUBSEQUENT EVENTS

Common Shares Issuance

- On January 5, 2024, the Company completed a non-brokered private placement financing for gross proceeds of \$418,900 (\$60,000 in cash and settled \$358,900 in debt to certain creditors) through the issuance of 8,378,000 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).