

Nexera Energy Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2022 and 2021

(expressed in Canadian dollars)



Crowe MacKay LLP

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Independent Auditors' Report

To the Shareholders of Nexera Energy Inc.

Opinion

We have audited the consolidated financial statements of Nexera Energy Inc. ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of comprehensive loss, changes in shareholder's deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Consolidated Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. Other than the matter described in the Material Uncertainty Related to Going Concern, we have determined the matters described below to be key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of the recoverable amount of Cash Generating Units

We draw attention to Notes 2, 3 and 6 to the consolidated financial statements. The Group assesses at each reporting date whether there is an indication that petroleum and natural gas properties within the cash generating units ("CGUs") may be impaired or that historical impairment may be reversed. If any such indication exists, then the asset's or CGUs recoverable amount is estimated. For the year ended December 31, 2022, the Group determined that no impairment or impairment reversals exist.

The estimated recoverable amount of each of the CGUs involves significant estimates, including:

- The estimate of cash flows associated with the proved and probable oil and gas reserves; and
- The discount rates.

The estimate of cash flows associated with the proved and probable oil and gas reserves includes significant assumptions related to:

- Forecasted oil and gas commodity prices;
- Forecasted production;
- Forecasted operating costs;
- Forecasted royalty costs;
- Forecasted future development costs; and
- Discount rate.

The Group engages independent third party reserve evaluators to estimate the cash flows associated with the proved and probable oil and gas reserves as at December 31, 2022.

Why the Matter is a Key Audit Matter

We identified the assessment of the recoverable amount of the CGUs as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the estimate of cash flows associated with the proved and probable oil and gas reserves and the discount rates.

How the Key Audit Matter was Addressed in the Audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of cash flows associated with the proved and probable oil and gas reserves as at December 31, 2022:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Group;
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators;
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Group to those estimates used in the prior year's estimate of cash flows associated with the proved and probable oil and gas reserves to assess the Group's ability to accurately forecast; and
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development cost assumptions by comparing to 2022 historical results. We took into account changes in conditions and events affecting the Group to assess the adjustments or lack of adjustments made by the Group in arriving at the assumptions.

Provision for decommissioning obligations

We draw attention to Notes 2, 3 and 7 to the consolidated financial statements. The Group makes a provision for the future cost of decommissioning oil and gas wells and production facilities discounted back to present value. The calculation and recognition of the provision in the consolidated financial statements requires a number of significant assumptions, including the selection of an appropriate discount rate and estimation of the costs and timing of decommissioning oil and gas wells and facilities.

Why the Matter is a Key Audit Matter

We identified provisions for the future cost of decommissioning oil and gas wells and facilities as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the estimate of the cost and timing associated with the decommissioning of oil and gas wells and facilities and the discount rates used in the calculation.

How the Key Audit Matter was Addressed in the Audit

In responding to the key audit matter, we performed the following audit procedures:

- Identifying the key assumptions and inputs used within management's calculation of decommissioning obligations and assessing the key assumptions against local market and industry trends in order to determine whether the assumptions used are reasonable and can be sufficiently supported;
- Assessed the appropriateness of the model used to calculate the provision; and
- Benchmarking the discount rate used in the calculation of decommissioning obligations against comparable market data and assessing the appropriateness of the use of the discount rate.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Todd Freer.

Calgary, Canada
June 2, 2023

Crowe MacKay LLP
Chartered Professional Accountants

Nexera Energy Inc.

Consolidated Statements of Financial Position December 31, 2022 and December 31, 2021

	December 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash	475,928	324,659
Short-term investments	355,643	337,624
Trade and other receivables (notes 12(a) and 16(b))	356,459	689,427
Prepaid expenses and deposits	2,209	104,787
Total current assets	1,190,239	1,456,497
Non-current assets		
Property and equipment (note 6)	2,643,258	3,670,109
Total assets	3,833,497	5,126,606
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	10,972,292	9,052,902
Shareholder indemnity (note 14(a))	291,628	291,628
Demand loan (note 8)	57,010	62,010
Credit facility (note 9(b))	4,277,107	4,003,444
Note payable (note 9(a))	5,785,406	5,785,406
Other liabilities (note 14(b))	103,496	103,496
Lease liability – short-term (note 13)	14,863	13,474
Total current liabilities	21,501,802	19,312,360
Non-current liabilities		
Lease liability (note 13)	-	25,757
Decommissioning obligations (note 7)	3,829,742	4,382,686
Royalty obligation (note 6)	200,209	190,170
Total liabilities	25,531,753	23,910,973
Shareholders' deficiency		
Share capital (note 10(b))	17,536,639	17,184,374
Warrants (note 10(c))	-	352,265
Contributed surplus	2,441,269	2,441,269
Share purchase loan (note 12(a))	(247,970)	(247,970)
Deficiency	(41,631,187)	(39,306,718)
Accumulated other comprehensive income	202,993	792,413
Total shareholders' deficiency	(21,698,256)	(18,784,367)
Total liabilities and shareholders' deficiency	3,833,497	5,126,606

Reporting entity and going concern (note 1)

Subsequent events (note 18)

Approved on behalf of the Board of Directors

Signed "Shelby D. Beattie"

Director

Signed "Gibson C. Scott"

Director

Nexera Energy Inc.

Consolidated Statements of Comprehensive Loss For years ended December 31, 2022 and 2021

	December 31, 2022	December 31, 2021
	\$	\$
Revenue		
Petroleum and natural gas revenue	1,974,735	1,353,200
Other revenue	182,500	119,966
Royalties	(470,812)	(336,447)
	<u>1,686,423</u>	<u>1,136,719</u>
Operating expenses		
Production and operating expenses	900,073	613,437
Depletion and depreciation (note 6)	301,092	449,955
Impairment of property and equipment (note 6)	-	1,324,593
General and administrative (note 12(b))	1,600,655	1,287,156
Bad Debt (note 16(b))	526,013	16,297
Foreign exchange	26,086	4,179
Loss on business acquisition, net (note 5)	-	854,783
Gain on participation agreement	(304,548)	(291,925)
Gain on sale of assets	(100,672)	-
	<u>2,948,699</u>	<u>4,258,475</u>
Results from operating activities	<u>(1,262,276)</u>	<u>(3,121,756)</u>
Finance expense		
Interest expense	(952,218)	(743,637)
Interest on lease liability	(7,910)	(7,910)
Accretion of decommissioning obligations (note 7)	(102,065)	(17,795)
	<u>(1,062,193)</u>	<u>(769,342)</u>
Net loss	<u>(2,324,469)</u>	<u>(3,891,098)</u>
Other comprehensive income (loss):		
Foreign currency translation adjustment	(589,420)	36,525
Total comprehensive loss	<u>(2,913,889)</u>	<u>(3,854,573)</u>
Basic and fully diluted loss per share (note 10(e))	(0.05)	(0.07)
Weighted average number of common shares outstanding	62,434,121	58,871,965

Nexera Energy Inc.

Consolidated Statements of Shareholders' Deficiency

For ended December 31, 2022 and 2021

	Share capital	Warrants	Contributed surplus	Share purchase loan	Deficiency	Non-Controlling Interest	Accumulated other comprehensive income	Total deficiency
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020	15,614,861	765,898	2,441,269	(247,970)	(35,415,620)	(1,106,683)	755,888	(17,192,357)
Reallocation on expiry of warrants	765,898	(765,898)	-	-	-	-	-	-
Net loss	-	-	-	-	(3,891,098)	-	-	(3,891,098)
Private placement, net of issue costs	424,685	352,265	-	-	-	-	-	776,950
Purchase of PRI 25%	378,930	-	-	-	-	1,106,683	-	1,485,613
Foreign exchange translation to presentation currency	-	-	-	-	-	-	36,525	36,525
Balance, December 31, 2021	17,184,374	352,265	2,441,269	(247,970)	(39,306,718)	-	792,413	(18,784,367)
Reallocation on expiry of warrants	352,265	(352,265)	-	-	-	-	-	-
Net loss	-	-	-	-	(2,324,469)	-	-	(2,324,469)
Foreign exchange translation to presentation currency	-	-	-	-	-	-	(589,420)	(589,420)
Balance, December 31, 2022	17,536,639	-	2,441,269	(247,970)	(41,631,187)	-	202,993	(21,698,256)

The notes are an integral part of these consolidated financial statements.

Nexera Energy Inc.

Consolidated Statements of Cash Flows

For years ended December 31, 2022 and 2021

	December 31, 2022	December 31, 2021
	\$	\$
Cash (used in) provided by:		
Operating activities		
Net loss for the year	(2,324,469)	(3,891,098)
Adjustments for:		
Bad debt expense (note 16(b))	526,013	16,297
Depletion and depreciation (note 6)	301,092	449,955
Impairment of property and equipment (note 6)	-	1,324,593
Accretion of decommissioning obligation (note 7)	102,065	17,795
Loss on business acquisition (note 5)	-	854,783
Interest on lease liability (note 13)	7,910	7,910
Modification to lease liability	(13,853)	
Unrealized foreign exchange (gain) loss	(157,876)	967
	<u>(1,559,118)</u>	<u>(1,218,798)</u>
Change in trade and other receivables	(193,045)	(131,144)
Change in prepaid expenses and deposits	102,578	(88,096)
Change in accounts payable and accrued liabilities	1,919,390	749,456
Change in short-term investments	(816)	-
	<u>268,989</u>	<u>(688,582)</u>
Investing activities		
Property and equipment expenditures (note 6)	(94,295)	(88,638)
	<u>(94,295)</u>	<u>(88,638)</u>
Financing activities		
Proceeds from issuance of common shares, net of issue costs (note 10 (b))	-	776,950
Repayment of other liabilities	-	(8,000)
Repayment of demand loan	(5,000)	-
Lease payments (note 13)	(18,425)	(33,962)
	<u>(23,425)</u>	<u>734,988</u>
Cash acquired on acquisition (note 5)	-	14,582
Change in cash	151,269	(27,650)
Cash, beginning of year	324,659	352,309
Cash, end of year	<u>475,928</u>	<u>324,659</u>

Nexera Energy Inc.

Notes to the Consolidated financial statements
For years ended December 31, 2022 and 2021

1 Reporting entity and going concern

Nexera Energy Inc. (the “Company”) was incorporated under the Business Corporations Act of Alberta on May 9, 1997 and is listed on the TSX Venture exchange. The Company is engaged in the exploration for and development of petroleum and natural gas properties, principally in Alberta, Canada and Texas, USA. The Company is listed on the TSX Venture exchange under the symbol “NGY.V”. The Company’s registered head office is located at #3A, 4015 – 1 Street South East, Calgary, Alberta, Canada T2G 4X7.

At December 31, 2022, the Company had not yet achieved profitable operations, had an accumulated deficiency of \$41,631,187 (\$39,306,718) since its inception and had a working capital deficiency of \$20,311,563 (2021 - \$17,855,863) (defined as current assets less current liabilities), and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future. Management is committed to raising additional capital to meet its exploration and operating obligation; however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which are distressed, particularly for junior petroleum and natural gas companies. All of these factors, together with the current unstable economic conditions, indicate the existence of material uncertainties related to events or conditions that cast significant doubt as to whether the Company can continue as a going concern and; therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

2 Basis of presentation

a) Statement of compliance:

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Board of Directors approved the consolidated financial statements on June 2, 2023.

Nexera Energy Inc.

Notes to the Consolidated financial statements For years ended December 31, 2022 and 2021

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

c) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned United States subsidiaries Emerald Bay Texas Inc., Production Resources, Inc. ("PRI") and Cotulla Vacuum Services, Ltd. Control exists when the Company has the power over the investee, exposure or rights to variable returns from its involvement and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions and balances have been eliminated.

d) Nature and purpose of equity and reserves:

The reserves recorded in equity on the Company's consolidated statement of financial position include 'Contributed surplus', 'Accumulated other comprehensive income', and 'Deficiency'.

'Contributed surplus' is used to recognize the value of stock options and broker warrants prior to exercise as well as residual amounts from transactions with shareholders acting in their capacity as shareholders.

'Accumulated other comprehensive income' is used to recognize the foreign exchange gain or loss resulting from the translation of the Corporation's foreign subsidiaries.

'Deficiency' is used to record the Corporation's change in deficiency from profit or loss from year to year.

e) Use of estimates and judgements:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Nexera Energy Inc.

Notes to the Consolidated financial statements
For years ended December 31, 2022 and 2021

Significant judgements

Determination of cash-generating units (“CGU”)

Property and equipment are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company’s CGUs is subject to management’s judgement.

Indicators of Impairment

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of property and equipment are impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction on estimates of proved and probable reserves. When management judges that circumstances indicate impairment, property and equipment are tested by comparing the carrying values to their recoverable amounts. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs.

Functional currency determination

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgements to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

Going Concern

The financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgement to assess the Company’s ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

Nexera Energy Inc.

Notes to the Consolidated financial statements
For years ended December 31, 2022 and 2021

Significant estimates and assumptions

Reserve estimates

The estimate of reserves is used in forecasting the recoverability and economic viability of the Company's oil and gas properties, and in the depletion and impairment calculations. Reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Company's oil and gas properties. The Company estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves.

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. Amounts recorded for the decommissioning obligations and related accretion expense require estimates regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal costs, and discount rates to determine the present value of these cash flows.

Shareholder indemnity

The accounting policy for the shareholder indemnity liability is described in note 14(a). The application of this policy requires management to make certain estimates and assumptions as to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency.

Recoverability of assets

The Company assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell ("FVLCTS") and its value in use. The Company used the calculation of FVLCTS to determine the fair value of its CGUs. In determining the FVLCTS, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves.

Nexera Energy Inc.

Notes to the Consolidated financial statements
For years ended December 31, 2022 and 2021

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

Cash

Cash includes cash on hand and deposits held with banks. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the legally enforceable right and ability and intent to net bank overdrafts against cash, are included as a component of cash for the purpose of the consolidated statement of cash flows.

Property and equipment and exploration and evaluation assets

Recognition and measurement:

(i) E&E expenditures:

Pre-license costs are recognized in the consolidated statement of comprehensive loss as incurred.

All costs associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproven property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, and sampling and appraisals.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and transferred to property and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statement of comprehensive loss as impairment of exploration and evaluation costs.

(ii) Property and equipment:

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proven property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proven plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proven reserves. Costs of major development projects are excluded from the costs subject to depletion unless they are available for use.

Nexera Energy Inc.

Notes to the Consolidated financial statements For years ended December 31, 2022 and 2021

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within “operating expenses” in consolidated statement of comprehensive loss.

(iii) Property and equipment – corporate and other:

Property and equipment – corporate and other is carried at cost and amortized over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis. Amortization is charged at half rates in the year of acquisition.

The Company uses the following rates:

Asset class	Rate
Furniture and equipment and leasehold improvements	20%
Computer Hardware	30%
Automotive	30%

Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of comprehensive loss as incurred.

Financial assets and liabilities

All financial assets are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets.

Nexera Energy Inc.

Notes to the Consolidated financial statements For years ended December 31, 2022 and 2021

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions:

- (i). The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii). The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet condition (ii) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at fair value through other comprehensive income (“FVOCI”). All other financial assets are subsequently measured at their fair values, with changes in fair value recognized in profit or loss (“FVTPL”).

Financial Assets and Liabilities	IFRS 9
Cash	Amortized cost
Trade and other receivables	Amortized cost
Short term investments	Amortized cost
Share purchase loan	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Shareholder indemnity	Amortized cost
Royalty obligation	Amortized cost
Demand loan	Amortized cost
Credit facility	Amortized cost
Note payable	Amortized cost
Other liabilities	Amortized cost

Impairment

Financial assets:

At each reporting date, the Company assesses the expected credit losses (“ECL”) associated with its financial assets to determine the ECL allowances.

For trade and other receivables, the Company applies the simplified approach required by IFRS 9, which requires the lifetime ECL allowances to be recognized at the initial recognition of the receivables. The ECL for financial assets are based on the assumptions about risk of default and expected credit losses. The Company uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Nexera Energy Inc.

Notes to the Consolidated financial statements
For years ended December 31, 2022 and 2021

Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property and equipment as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The Company considers its Canadian assets as a CGU, its Texas assets held by Emerald Bay Texas Inc. as a separate CGU, and its assets held by Production Resources Inc. as a separate CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its FVLCTS. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCTS is based on available market information, where applicable. In the absence of such information, FVLCTS is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs.

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

Share-based payments

The Company issues stock options to directors, officers and other consultants, which are deemed employees. The fair value of options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, using a graded vesting model. The fair value is recognized as an expense within operations with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The fair value of warrants issued as part of the private placements is measured at the closing date of the private placement using the Black-Scholes option pricing model. The fair value is recognized as a deduction against share capital with a corresponding increase in contributed surplus.

If and when the stock options and/or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Nexera Energy Inc.

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Provisions

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

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the consolidated statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision was established.

Revenue

Revenue from the sale of crude oil, natural gas, and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

Applying the five step model required by IFRS 15, Revenue from Contracts with Customers, revenue is recognized as follows for these contracts:

Step in Model	Oil and Gas Sales
Identify the contract	The contractual arrangement executed with the customers, specifying the quantity and market price.
Identify distinct performance obligations	Single performance obligation to provide crude oil and gas to the customers.
Estimate transaction price	Transaction price is based on current commodity market prices.
Allocate the transaction price to performance obligations	Total revenue is allocated to the single performance obligation.

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Recognize revenue as performance obligations are satisfied	Revenue to be recognized at a point in time once control passes to the customers (i.e when product is delivered).
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The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Gathering fees charged to other entities for use of facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Gathering fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

From time to time, the Company performs wellsite operator and supervisory contract work and recognizes these revenues as the services are provided and billed to the customer.

Finance income and expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on provisions.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted as at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes

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levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

Currency translation

Functional and presentation currency

The functional currency for each branch within the Company is the currency of the primary economic environment in which it operates. The functional currency for the United States branch and the Company's United States subsidiaries is the United States dollar. The functional currency for the Canadian branch is the Canadian dollar. These consolidated financial statements are presented in Canadian dollars. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The results and financial position of the subsidiaries that have a functional currency different from the presentation currency are translated into Canadian dollars, the presentation currency, as follows:

- Assets and liabilities are translated at the closing exchange rate at the date of the consolidated statement of financial position;
- Income and expenses are translated at the average exchange rates during the period; and
- All resulting exchange differences are charged/credited to the currency translation adjustment in Other Comprehensive Loss.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities, within the United States branch, denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of comprehensive loss.

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Flow-through shares

From time to time the Company will issue flow-through common shares to finance a portion of its exploration program. These shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company splits the flow-through shares into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. When expenses are renounced, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

Joint operations

Many of the Company's oil and natural gas activities involve joint operations. A joint operation is a type of arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the joint operation. The consolidated financial statements include the Company's share of these joint operations and a proportionate share of the relevant revenue and related costs.

Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

Leases are recognized as a Right-of Use ("ROU") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

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When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the Statements of Net and Comprehensive Income (Loss) if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the Statements of Net and Comprehensive Income (Loss) on a straight-line basis over the lease term. A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will re-measure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net income (loss) that reflects the proportionate decrease in scope.

ROU assets are assessed for impairment on initial recognition and subsequently on an annual basis, at a minimum. ROU assets subject to leases that have become onerous in nature are adjusted by the amount of any provision for onerous leases.

During the year ended December 31, 2022, the Company expensed \$36,000 (2021 - \$36,000) for short-term leases including operating costs.

New accounting standards and pronouncements

The Company has adopted these accounting standards effective January 1, 2022:

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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There was no significant impact to the financial statements as a result of the adoption of these amendments.

Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

There was no impact to the financial statements as a result of the adoption of these amendments.

Annual Improvements (2018-2020 cycle): IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities

The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

There was no impact to the financial statements as a result of the adoption of this amendment.

Future accounting standards and pronouncements

The following accounting standards and amendments are effective for future periods.

Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

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Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

These amendments clarify how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback

These amendments require a seller-lessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows: (i) on initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction; (ii) after initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019.

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These amendments are effective for reporting periods beginning on or after January 1, 2024.

Amendment to IAS 1 – Non-current Liabilities with Covenants

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

This amendment is effective for reporting periods beginning on or after January 1, 2024.

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property and equipment and E&E assets:

The fair value of property and equipment and E&E assets is the estimated amount for which property and equipment and E&E assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports.

Cash, trade and other receivables, accounts payable and accrued liabilities, shareholder indemnity, demand loan, credit facility, note payable and other liabilities:

At December 31, 2022 and December 31, 2021, the fair value of these balances approximated their carrying value due to their short term to maturity.

Share-based payments, warrants and finder's options:

The fair value of employee stock options, warrants and the finder's options are measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

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5 Business combinations

The Company completed the following business combinations during fiscal 2021:

Cotulla Vacuum Services Ltd. ("Cotulla")

The Company acquired the shares of Cotulla from a non arm's-length party in February 2021. The fair value of the assets acquired and liabilities assumed on the date of acquisition is as follows:

Assets acquired:

Cash	\$	14,582
Trade and other receivable		27,865
Property and equipment		<u>225,503</u>
Total assets acquired:	\$	267,950
Liabilities assumed:	\$	<u>-</u>
Net assets acquired :	\$	267,950

Consideration paid: \$ -

The value of the net assets acquired has been recognized as a bargain purchase gain in these consolidated financial statements. The Company will share in 50% of the profits associated with the operation of the assets on a go-forward basis.

Petroleum Resources Inc. ("PRI")

Effective January 1, 2021, the Company acquired the remaining 25% interest, representing the non-controlling interest, in PRI for gross consideration of \$100,000 USD (\$120,960 CAD) in cash and \$300,000 USD (\$378,930 CAD) settled through the issuance of 3,789,300 common shares at \$0.10 CAD per share. As part of the transaction, the non-controlling interest holder forgave \$400,000 USD of debt outstanding from PRI (note 9).

	CAD
Fair value of 25% interest	\$ (622,843)
Consideration paid:	<u>499,890</u>
Excess consideration:	<u>\$ 1,122,733</u>

The excess consideration paid has been recognized as a loss on acquisition in these consolidated financial statements.

As at December 31, 2022 and 2021, the cash consideration remains unpaid and is included in accounts payable and accrued liabilities.

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6 Property and equipment

	Oil and natural gas interests \$	Right of use assets \$	Corporate and other \$	Total \$
Cost, December 31, 2021	14,114,582	48,310	983,217	15,146,109
Additions	31,663	-	62,632	94,295
Revisions to decommissioning liability (note 7)	(943,517)	-	-	(943,517)
Foreign currency translation	1,130,853	-	(11,128)	1,119,724
Cost, December 31, 2022	14,333,581	48,310	1,034,721	15,416,612
Accumulated depletion, depreciation and impairment, beginning of year	(10,917,678)	(16,490)	(541,832)	(11,476,000)
Depreciation and depletion for the year	(170,099)	(16,665)	(114,328)	(301,092)
Foreign currency translation	(941,955)	-	(54,307)	(996,262)
Carrying value, December 31, 2022	2,303,849	15,155	324,254	2,643,258

	Oil and natural gas interests \$	Right of use assets \$	Corporate and other \$	Total \$
Cost, December 31, 2020	11,291,517	48,310	712,699	12,052,526
Additions	53,700	-	260,441	314,141
Revisions to decommissioning liability (note 7)	2,828,595	-	-	2,828,595
Foreign currency translation	(59,230)	-	10,077	(49,153)
Cost, December 31, 2021	14,114,582	48,310	983,217	15,146,109
Accumulated depletion, depreciation and impairment, beginning of year	(9,283,937)	(4,122)	(454,864)	(9,742,923)
Depreciation and depletion for the year	(352,932)	(12,368)	(84,655)	(449,955)
Impairment	(1,324,593)	-	-	(1,324,593)
Foreign currency translation	43,784	-	(2,313)	41,471
Carrying value, December 31, 2021	3,196,904	31,820	441,385	3,670,109

Royalty obligation

During fiscal 2020, the Company closed an acquisition with an arms-length party of various properties and working interests in the La Vernia fields for cash consideration and a gross overriding royalty that became effective January 1, 2021. The gross overriding royalty was initially valued at an estimate of its fair value of USD\$300,000 (CAD\$399,000) and is subsequently measured in accordance with IFRS 9 at amortized cost using the effective interest rate method at each period end based on estimated projected royalties as determined by utilizing the independent reserve engineer report.

In April 2020, the Company disposed of 50% of its working interest in the La Vernia fields. As at December 31, 2022, the royalty liability was determined to have a value of CAD\$200,209 (USD\$150,000) (2021 – CAD\$190,170; USD\$150,000).

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Impairment

In light of volatility in oil benchmark prices during the year an impairment test was carried out on the Company's CGU's on December 31, 2022 and December 31, 2021. The impairment test carried out was based on reserve values using a post-tax discount rate of 12% (2021 – 10%), independent reserve evaluator's forecast pricing and an inflation rate of 2%. The recoverable amount of the CGU was based on FVLCS. The fair value was estimated based on a discounted cashflows approach.

The test resulted in no impairment for the Company for the year ended December 31, 2022 (December 31, 2021 – impairment of \$1,324,593). The impairment test is sensitive to commodity prices, which have been subject to significant volatility recently.

Reserves. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

- (a) *Petroleum and natural gas prices.* Forward price estimates for petroleum and natural gas are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors. If prices decreased by 5% then impairment would increase by \$nil.
- (b) *Discount rate.* The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate cost of capital for potential acquirers of the Company or the Company's CGUs. Changes in the general economic environment could result in significant changes to this estimate.

The benchmark prices on which the December 31, 2022 recoverable amount was determined was as follows:

	Crude oil (West Texas Intermediate) USD\$/bbl
2023	71.36
2024	65.88
2025	63.92
2026	65.33
2027	66.74

Prices escalating at 2.0 percent annually thereafter.

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The benchmark prices on which the December 31, 2021 recoverable amount was determined was as follows:

	Crude oil (West Texas Intermediate) USD\$/bbl
2022	72.83
2023	68.78
2024	66.76
2025	68.09
2026	69.45

Prices escalating at 2.0 percent annually thereafter.

7 Decommissioning obligations

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years.

The Company has estimated the cost of the decommissioning obligations to be \$4,544,572 as at December 31, 2022 (2021 - \$4,860,745). These payments are expected to be made over the next 2 to 15 years. The obligations have been calculated using an inflation rate of 2.00% (2021 – 2.00%) and a discount factor, being the risk-free rate related to the liability, of 3.23% - 4.73% (2021 – 0.39% - 1.94%).

	December 31, 2022	December 31, 2021
	\$	\$
Balance, beginning of year	4,382,686	1,538,858
Revisions / changes in estimates (note 6)	(943,517)	2,828,595
Accretion	102,065	17,795
Foreign currency translation	288,508	(2,562)
Balance, end of year	3,829,742	4,382,686

8 Demand loan

On May 12, 2015, the Company entered into a loan agreement (the "Demand Loan") with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the "Lender") for up to an amount of \$150,000. This balance was paid down to \$75,000 in 2019. The Demand Loan is due on the demand of the Lender and bears interest of 8.00% per annum, compounded monthly. The balance outstanding at December 31, 2022 is \$57,010 (December 31,

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2021 - \$62,010) and has accrued interest of \$6,328 (December 31, 2021 - \$4,770) included in accounts payable and accrued liabilities. The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

9 Note Payable and Credit facility

a) The Company closed a loan agreement (the "Loan Agreement") with a private company (the "Lender"), whereby the Lender issued to the Company a note payable with the ability to borrow up to \$6,250,000 (the "Note payable"). The Lender is a significant shareholder of the Company. The Note Payable will have an interest free period until January 1, 2018, at which point the Note payable will bear interest at a rate equal to Prime Rate plus 1.5% per annum. The Note payable is payable upon demand by the Lender, and is secured over all of the assets of the Company.

At December 31, 2022 the total amount outstanding under the Loan is \$5,785,406, (December 31, 2021 - \$5,785,406), and during the period ended December 31, 2021, the Company incurred interest of \$398,905 (December 31, 2021 - \$273,568). Total accrued interest included in accounts payable and accrued liabilities is \$1,690,107 (December 31, 2021 - \$1,291,202).

b) The credit facility is due to a significant shareholder in the Company. The Credit facility may be drawn up to \$4,600,000. At December 31, 2022 the principal balance was \$4,277,107 (December 31, 2021 - \$4,003,444) and unpaid interest included in accounts payable and accrued liabilities is \$2,596,501 (December 31, 2021 - \$1,911,816). Interest of \$684,685 (December 31, 2021 - \$461,808) was expensed in the consolidated statements of comprehensive loss. The Credit facility bears interest at 9% and repayment terms are at 35% of PRI gross revenues. The credit facility is secured by Deed of Trust and financing statements. At year end, the Company was not in compliance with repayment terms and as such, this credit facility has been classified as a current liability.

10 Share capital

a) Authorized

Unlimited number of common shares with voting rights

Unlimited number of preferred shares, issuable in series

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b) Issued

	Number of Common Shares	Amount \$
Balance, December 31, 2020	45,311,492	15,614,861
Private placement (i)	13,333,330	800,000
Value of warrants pursuant to private placement (i)	-	(352,265)
Share issue costs (i)	-	(23,050)
Expiry of warrants	-	765,898
Shares issued for acquisition (ii)	3,789,300	378,930
Balance, December 31, 2021	62,434,122	17,184,374
Expiry of warrants	-	352,265
Balance, December 31, 2022	62,434,122	17,536,639

- (i) On March 1, 2021, the Company completed a private placement (the "Private Placement"), issuing 13,333,330 units (the "Unit"). Each Unit was issued at \$0.06 for total proceeds of \$800,000 and consists of one common share of the Company and one share purchase warrant (the "Warrant"). Each Warrant entitled the holder to purchase one additional common share of the Company at \$0.10 per share, exercisable for 1 year from the original issue date. The Company allocated \$352,265 of the unit value to warrants (note 10(c)). Pursuant to the Private Placement, the Company incurred \$23,050 in cash share issue costs, which was allocated to the shares.
- (ii) On May 12, 2021 the Company issued 3,789,300 shares at \$0.10 for total price of \$378,930 to purchase 25% share of Production Resources Inc. ("PRI") and settle the debt owed to the seller. The Company is to pay \$100,000 US dollars in installments to complete the deal. This amount is included in accounts payable (note 3).

c) Warrants

Warrants to acquire common shares outstanding at December 31, 2022 are as follows:

	Number of warrants issued and exercisable	Amount \$	Weighted average exercise price \$	Weighted average Remaining life (years)
Balance, December 31, 2020	21,704,600	765,898	0.05	1.0
Share purchase warrant issued (note 10(b))	13,333,330	352,265	0.10	0.16
Expiry of share purchase warrants	(21,704,600)	(765,898)	(0.05)	-
Balance, December 31, 2021	13,333,330	352,265	0.10	0.16
Expiry of share purchase warrants	(13,333,330)	(352,265)	(0.10)	-
Balance, December 31, 2022	-	-	-	-

The fair value of the share purchase warrants granted during the year are estimated at the grant date using the Black-Scholes option pricing model and have been credited to warrants within shareholders' deficiency. A weighted average of the assumptions used in the calculation is noted below:

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	<u>2021</u>
Risk-free rate	0.25%
Expected life	1 year
Expected volatility	192%
Fair value per warrant	\$0.026

Volatility was determined based on the Company's historical share prices.

d) Stock options

The Company established a share option plan (the "Plan") for the benefit of officers, directors, employees and consultants of the Company. Under the Plan, the number of common shares to be reserved and authorized for issuance pursuant to options granted under the Plan cannot exceed 10% of the total number of issued and outstanding shares of the Company. The term, the vesting period and the exercise price are determined at the discretion of the Board of Directors. However, the maximum option term shall not exceed five years.

There were no options outstanding as at and for the years ended December 31, 2022 and December 31, 2021.

During the year ended December 31, 2022 and December 31, 2021, the Company did not recognize any share-based payment expense.

e) Per share data

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share. Under this method, it is assumed that proceeds from the exercise of dilutive securities are used by the Company to repurchase Company shares at the average price during the year.

All dilutive equity instruments have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive due to the loss position of the Company.

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11 Income Taxes

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principle reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Loss before income taxes	(2,324,469)	(3,891,098)
Statutory income tax rate	22.00%	22.00%
Expected income tax provision	(511,383)	(856,042)
Non-deductible loss on business acquisition	-	178,052
Other	(101,320)	-
Change in deferred tax asset not recognized	612,703	677,990
Income tax provision (recovery)	-	-

No deferred tax asset has been recognized in respect of the following losses and deductible temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax assets to be recovered.

	December 31, 2022	December 31, 2021
	\$	\$
Property and equipment	1,952,681	1,848,451
Flow-through share indemnity liability	64,158	64,158
Finance fees	-	384
Share issuance costs	3,043	4,631
Scientific research and experimental development	132,583	132,583
Investment tax credits	171,600	171,600
Non-capital losses	5,627,323	5,116,878
Total	7,951,388	7,338,685

As at December 31, 2022, the Company has estimated non-capital losses for Canadian income tax purposes of approximately \$25,579,000 that will expire between 2024 and 2042 and may be carried forward to reduce taxable income derived in future years.

12 Related party transactions and key management compensation

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

- a) The following amounts are due from related parties:

During the year ended December 31, 1999, a promissory note for \$218,500 was issued by an officer of the Company to purchase shares of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended

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December 31, 2014, the Company revised the terms of the loan (the “Revised Promissory Note”), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount receivable (December 31, 2013 – fair value allowance \$240,789). Under the Revised Promissory Note, a balance of \$247,970, including the principal of \$218,500 and accrued interest, is payable by the officer to the Company. The payments were to commence on December 31, 2015, and be paid annually in \$50,000 tranches until December 31, 2018, with the final payment of \$47,970 due on December 31, 2019. Interest is accruing at 1% per annum, and is payable annually commencing December 31, 2015, concurrently with each principal payment. The officer may repay the principal amount in whole or in part at any time. As of December 31, 2020, the officer had not yet paid the initial instalment, and the payment term has been extended to begin on December 31, 2022 with final payment due December 31, 2025. The officer has not yet paid the initial instalment due on December 31, 2022. The terms of the loan agreement do not provide the Company with recourse to ensure repayment. Thus, the share purchase loan has been presented as a deduction from equity.

During the year ended December 31, 2020, an officer was advanced a total of \$255,470. During the year ended December 31, 2020, the officer repaid \$140,000 of this amount. The remaining balance of \$115,471 was repaid during the year ended December 31, 2021. During the year ended December 31, 2022, an officer was advanced a total of \$77,743. This balance is included in trade and other receivables at December 31, 2022.

- b) Additional related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:
- (i) Aggregate fees of \$Nil (December 31, 2021 - \$Nil) were charged by directors of the Company all of which was recorded in the consolidated statement of comprehensive loss.
 - (ii) Rent expense of \$36,000 (December 31, 2021 - \$36,000) was charged by corporations, which are owned and controlled by a party who is also a significant shareholder of the Company, and were all recorded as general and administrative costs.
 - (iii) Included in accounts payable at December 31, 2022 was \$2,166,417 owing to officers and directors of the Company and to corporations which are owned and controlled by a party who is a significant shareholder of the Company (December 31, 2021 - \$1,674,087).

Key management compensation

During the period ended December 31, 2022, \$449,304 (December 31, 2021 - \$390,205) in management compensation was incurred, of which \$449,304 (2021 - \$289,471) was recognized in the consolidated statements of comprehensive loss and \$nil (2021 - \$100,734) was capitalized to property and equipment in the consolidated statements of financial position.

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13 Lease Liabilities

The following is a breakdown of the Company's lease liability:

Lease liability – vehicle leases		
Balance, December 31, 2020	\$	65,283
Lease payments		(33,962)
Interest expense		7,910
Balance, December 31, 2021	\$	39,231
Lease payments		(18,425)
Lease modification		(13,853)
Interest expense		7,910
Balance, December 31, 2022	\$	14,863
Less current portion of lease obligations		(14,863)
Non-current portion of lease obligations	\$	-

As at December 31, 2022, the estimated undiscounted cash flows required to settle the Company's lease liability was \$14,863 (December 31, 2021- \$39,231). As at December 31, 2022, the Company calculated the present value of the lease payments utilizing an incremental borrowing rate ranging from 6% - 10% (December 31, 2021 – 6% - 10%).

The Company's total undiscounted future lease payments equate to future fixed lease obligations and exclude future variable office lease obligations as they do not meet the recognition criteria for a lease.

14 Commitments and contingencies

- a) The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend \$824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability in the amount of \$291,628 at December 31, 2022 (December 31, 2021 - \$291,628). The accrued amount is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.
- b) During the year ended December 31, 2015, the Company settled a contingent liability totaling \$145,512 with a third party who performed oil field services for the Company. The obligation is secured by a take in kind revenue arrangement from one of its gas wells to and in favor of the third party in case of default. The settlement was fair valued at \$107,912 using Level II valuation

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techniques with a discount rate of 25%. The Company was required to make 35 monthly payments of \$4,300 starting July 1, 2015 to May 1, 2018 and final installment of \$3,800 to be paid on June 1, 2018. As of December 31, 2022 and 2021, the Company has not made payment in line with the agreed repayment schedule. Accordingly, the remaining balance of \$103,496 (2021 - \$103,496) is now considered as due on demand and is included in other liabilities. Given the Company's failure to settle the obligation pursuant to the agreed upon terms with the third party, additional interest and collection charges may be awarded by the courts if pursued.

- c) A former supplier to the Company submitted a claim against Nexera for USD\$78,474 (CAD\$98,446). The supplier is seeking compensation for breach of a written agreement for well pumping equipment and services on a well situated in Guadalupe County, Texas in September of 2014. During 2017, the Company made a counter claim against the supplier asserting no liability based upon defective equipment having been leased by the Plaintiff. As at December 31, 2022 and 2021, no provision has been recognized in accordance with IAS 37 as there is no probable outflow of resources and no reliable estimate of an obligation can be made.
- d) The Company is subject to other claims from third parties aggregating USD \$16,693 (CAD\$22,611). The Company has filed a statement of defense related to these matters. As at December 31, 2022 and 2021, no provision has been recognized in accordance with IAS 37 as there is no probable outflow of resources and no reliable estimate of an obligation can be made.

15 Supplemental cash flow information

	December 31, 2022	December 31, 2021
	\$	\$
The Company had the following non-cash transactions:		
Change in estimates in decommissioning obligations (note 7)	(943,517)	2,828,595
Warrants expired and transferred to share capital (note 10(b))	352,265	765,898

16 Financial risk management

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

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a) Fair values

The Company's financial instruments consist of cash, short-term investments, trade and other receivables, accounts payable and accrued liabilities, shareholder indemnity, note payable, credit facility, other liabilities, royalty obligation, and demand loan.

Financial instrument	Classification	Carrying value	Fair value
		\$	\$
Cash	Amortized cost	475,928	475,928
Short-term investments	Amortized cost	355,643	355,643
Trade and other receivables	Amortized cost	356,459	356,459
Accounts payable and accrued liabilities	Amortized cost	10,972,292	10,972,292
Shareholder indemnity	Amortized cost	291,628	291,628
Demand loan	Amortized cost	57,010	57,010
Credit facility	Amortized cost	4,277,107	4,277,107
Note payable	Amortized cost	5,785,406	5,785,406
Other liabilities	Amortized cost	103,496	103,496
Royalty obligation	Amortized cost	200,209	200,209

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level III valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

At December 31, 2022 and 2021, the current financial assets and liabilities approximate their fair values.

b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint interest partners and oil and natural gas marketers.

Virtually all of the Company's trade and other receivables are from companies in the oil and gas industry and are subject to normal industry credit risks. Credit risks arise principally from the amounts owing to the Company from oil and natural gas marketers and joint interest partners. Management does not believe that any significant concentration of trade and other receivables exists that will result in any loss to the Company based on clients' past history of default and forward looking estimates. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with large marketers. However, the

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receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations and escalating costs. The Company does not typically obtain collateral from oil and natural gas marketers or others in the event of non-payment.

At December 31, 2022, the Company's trade and other receivables have been aged as follows:

Days outstanding	December 31, 2022	December 31, 2021
	\$	\$
0-30 days	209,535	140,153
31-60 days	9,900	119,726
61-90 days	4,289	37,046
Greater than 90 days	132,735	392,502
Total	356,459	689,427

Cash consists of bank balances held in both interest and non-interest bearing accounts. The Company manages credit exposure to cash by selecting financial institutions with high credit ratings.

Amounts outstanding for more than 90 days are considered past due. During the year ended December 31, 2022, the Company recognized an impairment charge of \$526,013 of trade and other receivables (December 31, 2021 – \$16,297). As at December 31, 2022, there is an allowance for doubtful accounts of \$741,639 (December 31, 2021 - \$203,779).

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At December 31, 2022, the Company's maximum exposure to liquidity risk is the total current liabilities of \$21,501,802 (December 31, 2021 - \$19,312,360) (Note 1).

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity through operations, debt financing, or raising equity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue.

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d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's loss or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing returns.

(i) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. All of the Company's oil and gas production is sold at spot rates exposing the Company to the risk of price movements.

(ii) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States and a portion of its expenses are incurred in United States dollars. The Company does not hedge its exposure to fluctuations in the exchange rate. Future changes in exchange rates could have a material effect on the Company's business including its intended capital plans, its financial condition and results of operations.

Certain financial instruments of the Company are exposed to fluctuations in the United States dollar, including cash, trade and other receivables and accounts payable and accrued liabilities. As at December 31, 2022, an increase or decrease of 10% to the foreign exchange rate between the United States dollar and the Canadian dollar applied to the average level of United States denominated cash would have had approximately a \$42,300 (December 31, 2021 - \$30,000) impact on the Company's comprehensive loss for the period.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2022, the majority of the Company's debt, including the short-term loan, the demand loan and the note payable, bears fixed interest rates and accordingly, are not subject to market interest rate fluctuations. The credit facility is at a floating interest rate and is therefore subject to market interest rate fluctuations.

The Company has no interest rate swaps or financial contracts in place as at or during the period ended December 31, 2022 or December 31, 2021.

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d) Capital management

The Company's capital consists of shareholders' deficiency, the credit facility, the note payable, the demand loan and working capital. The Company will adjust its capital structure to manage its current and future debt, drilling programs and potential corporate acquisitions through the issuance of shares, sourcing additional debt financing and adjustments to capital spending. The Company's objective for managing capital is to maximize long-term shareholder value by ensuring adequate capital to achieve the Company's objectives. The Company is not subject to any external capital requirements.

Management reviews its capital management approach on an ongoing basis and believes its current approach is reasonable. There has been no change in management's approach to capital management during the period.

17 Segmented information

The Company's primary operations are limited to a single industry being the acquisition, exploration for and development of petroleum and natural gas.

Product segmentation is as follows:

Revenue	Oil	Natural Gas	NGL's	Total
December 31, 2022 (\$)	1,764,230	199,765	10,740	1,974,735
December 31, 2021(\$)	1,220,518	124,426	8,256	1,353,200

Geographical segmentation is as follows:

	December 31, 2022 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	222,844	1,751,891	1,974,735
Depletion, depreciation and impairment	17,213	283,879	301,092
Net loss	(972,740)	(1,351,729)	(2,324,469)
Property and equipment	2,418	2,640,840	2,643,258
Total liabilities	11,595,156	13,936,597	25,531,753

	December 31, 2021 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	144,048	1,209,152	1,353,200
Depletion, depreciation and impairment	13,425	1,761,123	1,774,548
Net loss	(863,129)	(3,027,969)	(3,891,098)
Property and equipment	34,274	3,635,835	3,670,109
Total liabilities	10,778,484	13,132,489	23,910,973

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18. Subsequent events

On March 20, 2023 the Company announced that the Company's sole private lender ("Lender"), signed a letter of intent whereby outstanding loans, totaling \$13,961,222, will be converted to a sliding scale gross overriding royalty ("GORR"). Additionally, the GORR will be capped to a maximum of \$10,000,000. The GORR will be commodity price sensitive and paid out over time on the gross proceeds from the Company's oil and gas revenue. Final terms of the GORR structure will be released upon execution of the definitive agreement.

On April 20, 2023, the Company reported that it has closed its previously announced non-brokered private placement. Pursuant to this closing, an aggregate \$1,000,000 of convertible unsecured debentures (the "**Debentures**") of the Company (the "**Offering**") were issued (of which \$300,000 was acquired by a director of the Company). In addition to the Debentures, an aggregate 0.70% of royalty interests ("**Royalty Interests**") of the Company were also issued (0.01% Royalty Interest for every \$10,000 subscribed for under the Offering by non-insiders). The cash proceeds from the offering aggregate \$287,500 and the remainder represents the settlement of debt.