

WASKAHIGAN OIL & GAS CORP.

CONSOLIDATED FINANCIAL STATEMENTS **FOR THE YEARS ENDED DECEMBER 31, 2022 AND DECEMBER 31, 2021** **(IN CANADIAN DOLLARS)**



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Independent Auditor's Report

To the Shareholders of Waskahigan Oil & Gas Corp.

Opinion

We have audited the consolidated financial statements of Waskahigan Oil & Gas Corp. ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 December 31, 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 audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits 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 your attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect to 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 Going Concern section of this report, 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 8 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

Independent Auditor's Report (continued)

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 the estimated recoverable amount for the single CGU was greater than the carrying value and therefore, no impairment was recorded.

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 Asset Retirement Obligations

We draw attention to Note 10 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.

Independent Auditor's Report (continued)

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 asset retirement 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 asset retirement 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 auditor's 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 auditor's 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditor's Report (continued)

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

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

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

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

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

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

Calgary, Canada
April 28, 2023

Crowe MacKay LLP
Chartered Professional Accountants

WASKAHIGAN OIL & GAS CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED

In Canadian Dollars

	Note	December 31, 2022		December 31, 2021
ASSETS				
Current				
Cash and cash equivalents		\$ 69,530	\$	18,003
Restricted cash held in trust	5	164,629		70,000
Restricted investments	6	152,694		-
Trade and other receivables		137,296		94,070
Short term investments		-		14,218
Prepaid expenses and deposits		131,798		56,148
		655,947		252,439
Long term				
Restricted cash held in trust		-		211,021
Exploration and evaluation assets	7	5,067		11,036
Property and equipment	8	2,270,141		2,517,378
		\$ 2,931,155	\$	2,991,874
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$ 534,565	\$	188,301
Loan payable	9	1,096,419		1,086,488
Deferred income		3,728		8,223
Asset retirement obligation	10	311,572		288,826
		1,946,284		1,571,838
Asset retirement obligation	10	811,921		1,038,887
Total liabilities		2,758,205		2,610,725
SHAREHOLDERS' EQUITY				
Share capital	11	134,315		134,315
Contributed surplus		559,699		559,699
Deficit		(521,064)		(312,865)
		172,950		381,149
		\$ 2,931,155	\$	2,991,874
Going concern	1			

(Signed) "Gregory J. Leia"

(Signed) "Tracy Zimmerman"

Gregory J. Leia, Director

Tracy Zimmerman, Director

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

WASKAHIGAN OIL & GAS CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

In Canadian Dollars

FOR THE YEARS ENDED

	Note		December 31, 2022		December 31, 2021
REVENUE					
Oil & natural gas sales	18	\$	1,213,458	\$	1,039,245
Royalties			(370,935)		(211,593)
Other revenue			22		31
			842,545		827,683
EXPENSES					
Production and transportation			597,472		373,973
General and administrative			406,065		297,587
Accretion	10		38,932		7,054
Impairment of property and equipment	8		(329)		(997)
Depletion and depreciation	8		77,468		115,648
			1,119,608		793,265
OPERATING INCOME (LOSS) FROM OPERATIONS			(277,063)		34,418
Other income (expense) items					
Interest income			3,559		274
Interest expense			(65,954)		(71,948)
Gain on disposal of assets			79,480		-
Other income	19		53,286		19,972
Foreign exchange			(1,507)		161
NET LOSS AND COMPREHENSIVE LOSS			\$ (208,199)	\$	(17,123)
LOSS PER SHARE					
Basic and diluted		\$	(0.02)	\$	(0.00)

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

WASKAHIGAN OIL & GAS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED

In Canadian Dollars

	Note	December 31, 2022		December 31, 2021
OPERATING ACTIVITIES				
Net income (loss)	\$	(208,199)	\$	(17,123)
Items not affecting cash:				
Depletion and depreciation	8	77,468		115,648
Loan interest accrued		19,331		-
Impairment reversal of property and equipment	8	(329)		(997)
Accretion	9	38,932		7,054
Gain on disposal of assets		(79,480)		-
Foreign exchange		777		(162)
Changes in restricted cash		86,392		(272)
Settlement of asset retirement obligations	10	(77,605)		(388)
Changes in non-cash working capital	17	267,111		(120,529)
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		124,398		(16,769)
FINANCING ACTIVITIES				
Private placement	11	-		100,000
Purchase of long term investments	6	(152,694)		-
Repayment of loan	9	(9,400)		(65,687)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES		(162,094)		34,313
INVESTING ACTIVITIES				
Purchase of exploration and evaluation assets	7	-		(5,969)
Proceeds on disposal of assets		89,223		-
Acquisition of cash in acquisition transaction	8	-		6,428
CASH PROVIDED BY INVESTING ACTIVITIES		89,223		459
NET CHANGE IN CASH AND CASH EQUIVALENTS		51,527		18,003
CASH AND CASH EQUIVALENTS, beginning of year		18,003		-
CASH AND CASH EQUIVALENTS, end of year		\$ 69,530	\$	18,003
Interest paid	\$	50,091	\$	71,948
Supplemental disclosure of non-cash activities:				
Issuance of share capital on settlement of accounts payable		-	\$	34,215

WASKAHIGAN OIL & GAS CORP.

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In Canadian Dollars

FOR THE YEARS ENDED

	Note	December 31, 2022		December 31, 2021
SHAREHOLDERS' EQUITY				
<u>Share capital</u>				
	11			
Balance, beginning of year		\$ 134,315	\$	100
Private placement		-		134,215
Balance, end of year		\$ 134,315	\$	134,315
<u>Contributed surplus</u>				
Balance, beginning of year		\$ 559,699	\$	-
Gain on acquisition		-		559,699
Balance, end of year		\$ 559,699	\$	559,699
<u>Deficit</u>				
Balance, beginning of year		\$ (312,865)	\$	(295,742)
Net loss		(208,199)		(17,123)
Balance, end of year		\$ (521,064)	\$	(312,865)
TOTAL SHAREHOLDERS' EQUITY		\$ 172,950	\$	381,149

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

WASKAHIGAN OIL & GAS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

In Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Waskahigan Oil & Gas Corp. (“**WOGC**”) is in the business of exploring for, developing, and producing petroleum and natural gas properties in Western Canada. WOGC is a company domiciled in Canada. The address of WOGC's registered office is 203, 221 10th Avenue SE, Calgary, Alberta.

Until December 6, 2021, WOGC was a subsidiary of Tenth Avenue Petroleum Corp (“**TAPC**”). On January 1, 2021, the oil and gas assets of TAPC had been assigned through a Plan of Arrangement to Odaat Oil Corp. (“**Odaat**”) a newly-formed, wholly owned subsidiary of WOGC. Odaat is carrying on the oil and gas business previously carried on by TAPC.

On December 6, 2021, WOGC and TAPC filed Articles of Arrangement with the Registrar of Corporations for the Province of Alberta implementing the Order of Justice D.R. Mah dated May 25, 2021 in Court of Queen's Bench of Alberta Action #2101 02284 which approved the Plan of Arrangement dated March 24, 2021 (as amended) (“**Plan of Arrangement**”) amongst TAPC, WOGC, Odaat and Fox Creek Energy Ltd. (formerly BlocNRG) (“**Fox Creek**”). The implementation of the Plan of Arrangement was effective September 30, 2021. The effect of the Plan of Arrangement is such that WOGC became a standalone reporting issuer in the Provinces of Alberta and British Columbia independent of TAPC on December 6, 2021 upon filing of the Articles of Arrangement. The common shares of WOGC have been listed for trading on the Canadian Securities Exchange (“**CSE**”) as of July 28, 2022. Upon listing on the CSE, WOGC became a reporting issuer in Ontario.

To implement the Plan of Arrangement, TAPC declared a dividend of one (1) common share of WOGC to the holders of each common share of TAPC. TAPC dividended 10,512,568 common shares of WOGC at a deemed consideration of \$0.0001 per WOGC common share. The dividend records date was December 3, 2021. The dividend payment date was December 10, 2021.

By agreement effective September 30, 2021, WOGC, TAPC, Odaat, Smoky Oil & Gas Corp (“**Smoky**”), Gregory J. Leia Professional Corporation (“**GJLPC**”) and Cameron MacDonald, entered into an agreement (“**Transition Agreement**”) which governed the affairs of WOGC, TAPC and Odaat through the completion of the Plan of Arrangement.

The accompanying consolidated financial statements have been prepared using the going concern assumption which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

For the period ended December 31, 2022, the Company generated a net loss of \$208,199 (2021 – \$17,123), has current liabilities in excess of current assets of \$1,290,337 (2021 - \$1,319,399) and an accumulated deficit of \$521,064 (2021 – \$312,865). The Company has relied on support from various creditors and lenders (Note 9) to finance its operations. The continued volatility in global commodity prices and equity markets caused in part by the COVID-19 pandemic and the war in Ukraine creates significant uncertainties which may impact the Company's future operations, revenues and its ability to access the capital necessary to execute on its business plans. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

The future operations of the Company are dependent on the continued support from its creditors and lenders and the Company's ability to raise additional capital through equity or debt financings or the sale of assets. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future.

These consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate, the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

WASKAHIGAN OIL & GAS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

In Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and measurement

Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee ("**IFRIC**"). The consolidated financial statements of the Company include the accounts of WOGC and its wholly owned subsidiaries; Jadela Oil (US) Operating LLC ("**Jadela US**"), Odaat and Fox Creek. (collectively WOGC, Jadela US, Odaat and Fox Creek are referred to as (the "**Company**")) and have been prepared by management. These consolidated financial statements were authorized for issue by the Board of Directors on April 28, 2023.

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, share based compensation, and business acquisitions which are measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, as well as the functional currency of the Company's subsidiaries.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and deposits with banks. The Company does not have any cash equivalents as at December 31, 2022.

Cash and cash equivalents that are not available for use are classified as restricted cash. When restricted cash is not expected to be used within the next twelve months, it is classified as a long-term asset.

Short term investments

Short term investments consist of funds held in investment accounts that have a maturity of twelve months or less at the time of purchase.

Property and equipment and exploration and evaluation assets

Exploration and evaluation assets

Costs of exploring for and evaluating oil and natural gas properties (exploration and evaluation assets or ("**E&E Assets**") are capitalized within exploration assets. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling and completion of wells, plant and production equipment costs and related overhead charges. E&E assets do not include costs of general prospecting, or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed as incurred. Interest is not capitalized on E&E Assets.

E&E Assets are not depleted or depreciated and are carried forward until technical feasibility and commercial viability is considered to be determined. The technical feasibility and commercial viability is generally considered to be determined when proved plus probable reserves are determined to exist and the production of oil and gas has commenced. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved plus probable reserves have been discovered and production has commenced. Upon determination of proved plus probable reserves and commencement of production, E&E Assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to oil and natural gas interests, a separate category within Property Plant and Equipment ("**PP&E**").

WASKAHIGAN OIL & GAS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

In Canadian Dollars

Property and equipment

PP&E is stated at cost; less accumulated depletion, depreciation and amortization, and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, and costs attributable to bring the asset into operation, and the initial estimate of decommissioning obligation. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E 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. 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.

Depletion and depreciation

The net carrying value of developed and producing fields are depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Total proved plus probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrated with a 50 percent statistical probability.

Other property and equipment are depreciated over their estimated useful lives at the following annual rates and methods:

Other assets - Computer equipment	30%	declining balance
Other assets - Office equipment	20%	declining balance

Depreciation methods, useful lives and residual values are reviewed at least annually.

Impairment — Property and equipment

For the purpose of impairment testing, PP&E are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets — cash generating unit ("CGU").

The carrying amounts of PP&E are reviewed at each reporting date to determine whether there is any indication of impairment, such as decreased commodity prices or downward revisions in reserves volumes. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of the value in use or fair value less costs to sell.

Value in use is based on the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. 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 statement of income.

Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis.

Impairment losses, except those on goodwill, recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is

WASKAHIGAN OIL & GAS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

In Canadian Dollars

reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been permitted to be recognized.

Asset retirement obligations

Asset retirement obligations include legal obligations to retire tangible long-lived assets such as well sites, pipelines, and production facilities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligations are 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 costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet current regulatory requirements. The estimate of the total liability of future site restoration costs may be subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Accordingly, the amount of the liability will be subject to re-measurement at each reporting period. Any adjustments to this liability will impact the related asset.

Revenue recognition

Revenue from the sale of oil, natural gas and natural gas liquids ("NGLs") is recognized when performance obligations in the sales contract are satisfied and it is probable that the Company will collect the consideration to which it is entitled. Performance obligations are satisfied at the point in time when the product is delivered to a location specified in the contract and control passes to the customer. The Company assesses customer creditworthiness before entering into contracts and throughout the revenue recognition process.

Contracts for sale of the Company's oil, natural gas and NGLs products generally have terms of less than a year. These contracts specify delivery of product throughout the term of the contract. Sales of the Company's oil, natural gas, and NGLs are made pursuant to contracts based on prevailing commodity pricing at or near the time of delivery and volumes of product delivered.

Revenues are typically collected in the month following delivery and accordingly, the Company has not adjusted for the effects of a financing component.

Revenue in the statement of loss represents the Company's share of product sales and excludes amounts collect on behalf of third parties.

Income (loss) per share

Income (loss) per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the period.

WASKAHIGAN OIL & GAS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

In Canadian Dollars

Income taxes

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

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

Deferred tax is recognized using the balance sheet method, providing for 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 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.

Jointly owned assets

A percentage of the Company's exploration and production activities are conducted jointly with others, whereby two or more parties jointly own the assets. These consolidated financial statements reflect only the Company's share of these jointly owned assets and, once production commences, a proportionate share of the relevant revenue and related costs.

Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company initially measures all financial assets at fair value. Financial assets are subsequently classified as measured at fair value through profit and loss ("FVPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company's financial assets are classified into the following categories:

Amortized cost

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. Financial assets classified at amortized cost are initially recorded at fair value

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and subsequently at amortized cost using the effective interest rate method. The Company classifies cash and cash equivalents, trade and other receivables, short term investments, restricted investments, and restricted cash held in trust in this category.

Fair value through other comprehensive income

A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. Financial assets classified as FVTOCI are carried at fair value and any gains or losses are recorded in other comprehensive income in the period which they arise. The Company does not hold any instruments in this category.

Fair value through profit and loss

A financial asset is measured at FVTPL unless it is measured at amortized cost or at FVTOCI. Financial assets classified as FVTPL are carried at fair value and any gains or losses are recorded in net income in the period which they arise. The Company does not hold any instruments in this category.

The Company's financial liabilities are classified into the following categories:

Amortized cost

Financial liabilities measured at amortized cost are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The Company classifies accounts payable and accrued liabilities, and the loan payable at amortized cost.

Fair value through profit and loss

Financial liabilities measured at FVTPL are initially measured at fair value and the subsequently at fair value with gains or losses recognized in net income. The Company does not hold any financial liabilities in this category.

Impairment of Financial Assets

The Company recognizes loss allowances for expected credit losses (ECLs) on its financial assets measured at amortized cost. Expected credit losses are measured as the difference between the cash flows that are due to the Company and the cash flows that the Company expects to receive, discounted at the effective interest rate determined at initial recognition. Changes in the provision for expected credit loss are recognized in net earnings.

For accounts receivable, the Company assesses the lifetime ECL applicable to its commodity product sales receivable and joint venture receivables at initial recognition and re-assesses the provision at each reporting date. In making an assessment as to whether the Company's financial assets are credit impaired, the Company considers historical bad debts, the counterparties financial condition, credit rating and total financial exposure. The carrying amounts of receivables are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in comprehensive loss.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the net assets acquired. Goodwill is measured as the excess of the consideration transferred that exceeds the fair value of the identifiable assets acquired and liabilities assumed. If,

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after reassessment, the fair value of the identifiable assets acquired and liabilities assumed exceeds the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain unless the transaction is among entities under common control whereby any gains are recognized in contributed surplus, a separate component of equity. Transaction costs incurred are deferred until such time as the transaction is completed or abandoned and subsequently recognized in profit or loss in the period such determination is made.

Leases

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- i. Leases of low value assets (based on the value of the underlying asset when new); and
- ii. Short-term leases with a lease term of twelve months or less.

Recognition and initial measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease and for initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments owed subsequent to the commencement date. The discount rate may be the interest rate implicit in the lease. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

Foreign currency translation and transactions

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Canadian parent entity and its Canadian subsidiaries is the Canadian dollar and the functional currency of the Company's US subsidiary, which operations were discontinued in 2015, is also the Canadian dollar.

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

Monetary assets and liabilities of the US subsidiary are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of the US subsidiary are translated to Canadian dollars at exchange rates at the dates of transactions. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are

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considered to form part of a net investment in a foreign operation and are recognized directly in equity in other comprehensive income.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but reasonable assurance and compliance with conditions is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense, it is recognized in other income in the period in which the costs are incurred. When the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and recognized in net loss in equal amounts over the expected useful life of the related asset through lower depletion, depreciation and amortization.

Presentation of statement of loss

The Company's consolidated statement of loss is prepared primarily by the nature of the expenses.

Changes in accounting policies

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

Effective January 1, 2022 the Company adopted the amendments to IAS 37 that 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). The adoption of these amendments did not have a significant effect on the consolidated financial statements.

New Accounting Pronouncements

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Future Accounting Standards and Pronouncements

IAS 1 Presentation of Financial Statements ("IAS 1")

The IASB issued 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. The IASB then issued further amendments to specify that the classification of debt as current or non-current at the reporting date is not affected by covenants to be complied with after the reporting date, and added disclosure requirements about these covenants.

IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance for companies to apply materiality judgements to accounting policy disclosures. The amendments seek to provide more useful accounting policy disclosures by replacing the requirement for a company to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, as well as to add guidance on how a business applies the concept of materiality in making decisions about accounting policy disclosures.

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The Company will now have to consider both the size of the transactions, other events or conditions, and the nature of them.

All amendments are effective January 1, 2024 with early adoption permitted. The amendments are required to be adopted retrospectively. The Company is assessing the impact of the amendments on its consolidated financial statements.

Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

The IASB issued amendments regarding the definition of accounting estimates under IAS 8. Under the amended definition, a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The amendment further clarifies that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. Under the prior definition, IAS 8 stated that a change in accounting estimates specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This amendment will impact changes in accounting policies and changes in accounting estimates made after the amendment is adopted by the Company. These amendments are effective for reporting periods beginning on or after January 1, 2023. The Company is assessing the impact of all amendments on its consolidated financial statements.

IAS 12 Income Taxes ("IAS 12")

The IASB issued amendments to IAS 12 "Income Taxes" to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective January 1, 2023 with early adoption permitted. The amendments will be adopted January 1, 2023 and the Company is assessing the impact on the Company's consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Financial results as determined by actual events may differ from these estimates. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality.

The significant estimates and judgments in the consolidated financial statements include:

Estimating oil and gas reserves

The Company engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the Company's oil and gas reserves annually. Reserves form the basis for the calculation of depletion charges and assessment of impairment of oil and gas assets. Reserves are estimated using the reserve definitions and guidelines prescribed by National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Proved plus probable reserves are defined as the "best estimate" of quantities of oil, natural gas and related substances estimated to be commercially recoverable from known accumulations, from a given date forward, based on drilling, geological, geophysical and engineering data, the use of established

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technology and specified economic conditions. It is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes and reservoir performance or a change in the Company's plans with respect to future development or operating practices.

Determination of cash generating units

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management's judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

Asset retirement obligation

The Company estimates obligations under environmental regulations in respect of decommissioning and site restoration. These obligations are determined based on the expected present value of expenses required in the process of plugging and abandoning wells, dismantling of wellheads, production and transportation facilities and restoration of producing areas in accordance with relevant legislation, discounted from the date when expenses are expected to be incurred. Most of the abandonment of future expenses, estimated logistics of performing abandonment work and the discount rate used to calculate the present value of future expenses would have a significant effect on the carrying amount of the decommissioning provision.

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, to determine an implied fair value of the CGU being tested.

Fair value of related party loans

The Company estimates the fair value of its related party loan obligations. The Company estimates the market interest rate they would pay on a similar loan to an arm's length party, and then uses this market rate to discount the estimated cash flows of the loan in order to determine the fair value. The market interest rate and amount and timing of cash flows are subject to measurement uncertainty and may impact consolidated financial statements in future periods.

Income taxes

Tax regulations and legislation and the interpretations thereof are subject to change. The Company recognized the net future tax benefit of deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

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4. BUSINESS COMBINATION

Acquisition

Effective January 1, 2021, the oil and gas assets and liabilities of TAPC were assigned to Odaat pursuant to a Plan of Arrangement (Note 1). The transfer of assets was determined to be a business combination and has been accounted for using the acquisition method. The estimated acquisition date fair value of property and equipment was derived from the estimate of proved and probable oil and gas reserves and the related cash flows prepared by independent third-party reserve evaluators. The estimated proved and probable oil and gas reserves and the related cash flows were discounted at a rate based on what a market participant would have paid as well as market metrics in the prevailing area at that time. The estimated fair values of the net assets acquired and liabilities assumed have been calculated using market participant discount rates:

<hr/>	
Fair value of net assets acquired:	
Working capital	278,794
Restricted cash held in trust	86,254
Exploration and evaluation assets	5,067
Property and equipment	2,715,975
Asset retirement obligation	(1,374,117)
Loan payable	(1,152,174)
<hr/>	<hr/>
Total	559,799
Consideration paid:	
Promissory note	100
<hr/>	<hr/>
Gain on transaction	559,699
<hr/>	<hr/>

As the acquisition was completed between companies under common control, the gain on the transaction has been charged to contributed surplus, a separate component of equity.

5. RESTRICTED CASH HELD IN TRUST

Restricted cash held in trust includes \$124,629 (2021 - \$124,629) held by British Columbia Minister of Energy, Mines and Petroleum Resources and \$40,000 (2021 - \$70,000) held in trust at a related party law firm. In 2021, restricted cash held in trust also included \$54,697 held by the Alberta Energy and Utilities Board and \$31,695 (USD \$25,000) held by the Texas Railway Commission, both of which were returned to the Company during the year.

6. RESTRICTED INVESTMENTS

Restricted investments are funds held in non-redeemable GIC accounts with terms of 14 months and earn 4.4% interest compounded annually. The investments are security for letters of credit in the amounts of \$118,000 and \$32,000 which are required by a processing plant to allow the Company to process their gas and take it in kind. The fees for the letters of credit are 2% per annum.

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7. EXPLORATION AND EVALUATION ASSETS

	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 11,036	\$ -
Acquisitions	-	5,067
Capital expenditures	-	5,969
Disposals	(5,969)	-
Balance, end of year	\$ 5,067	\$ 11,036

During the 2022 year, the Company sold crown leases that were acquired in 2021 for proceeds of \$85,000 resulting in a gain on sale of \$79,031.

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8. PROPERTY AND EQUIPMENT

COSTS	Oil and Natural Gas Assets	Other assets	Total
Balance, December 31, 2020	\$ 155,800	\$ -	\$ 155,800
Acquisition	2,712,503	3,472	2,715,975
ARO change in estimate	(82,950)	-	(82,950)
Balance, December 31, 2021	\$ 2,785,353	\$ 3,472	\$ 2,788,825
Disposals	(8,180)	-	(8,180)
ARO change in estimate	(161,589)	-	(161,589)
Balance, December 31, 2022	\$ 2,615,584	\$ 3,472	\$ 2,619,056

ACCUMULATED DEPLETION AND DEPRECIATION

Balance, December 31, 2020	\$ 155,800	\$ -	\$ 155,800
Depletion and depreciation	114,656	991	115,647
Balance, December 31, 2021	\$ 270,456	\$ 991	\$ 271,447
Depletion and depreciation	76,764	704	77,468
Balance, December 31, 2022	\$ 347,220	\$ 1,695	\$ 348,915

CARRYING AMOUNT

December 31, 2021	\$ 2,514,897	\$ 2,481	\$ 2,517,378
December 31, 2022	\$ 2,268,364	\$ 1,777	\$ 2,270,141

At December 31, 2022, future development costs of \$398,000 (December 31, 2021 - \$34,000) associated with proved and probable reserves are included in costs subject to depletion.

Impairment

Recoverable amounts were determined using the fair value less costs to sell method and based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of oil prices, externally evaluated reserve volumes, and discount rates specific to the asset. The future cash flows were estimated as the proved plus probable reserve value for the property in each CGU discounted at rates ranging from 10% to 15% (2021 – 10%) per annum and were based on the Company's external independent engineering report.

Revisions to asset retirement obligations have resulted in a \$329 impairment reversal (2021 - \$997) that has been recognized in the consolidated statement of loss and comprehensive loss as these assets were impaired in prior periods.

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9. LOAN PAYABLE

		2022		2021
Loan payable, beginning of year	\$	1,086,487	\$	-
Loan acquired		-		1,152,174
Payments of principal and interest		(54,765)		(65,687)
Interest		64,697		-
Loan payable, end of year	\$	1,096,419	\$	1,086,487

On July 31, 2017, TAPC entered into a Loan and Participation Agreement with Smoky and 1454871 Alberta Ltd. ("1454871") (formerly Batoche Oil & Gas Exploration Ltd.) which are related companies by way of common directors and officers. Pursuant to the terms of the Loan and Participation Agreement ("TAPC LPA"), Smoky lent TAPC the sum of \$1,326,593 to complete the acquisition of assets from NuVista Energy Ltd. in 2017 (the "Waskahigan Assets"). The interest rate on the loan principal is 6% per annum. All obligations owing were secured by a general security agreement charging all of the assets of TAPC. The TAPC LPA had provided, that, subject to an agreed upon general and administrative expense payment, Smoky shall be entitled to all net cash flow from the Waskahigan Assets until the loan is repaid.

Pursuant to the original TAPC LPA, as additional consideration, Smoky was entitled to receive post payout of the loan: (a) 80% of net cash flow from the Waskahigan Assets (less agreed general and administrative expenses) until December 31, 2021 (subject to farmout rights); (b) 80% of net sale proceeds of Waskahigan Assets (subject to farmout rights); (c) right to compel TAPC to buy Smoky's right to 80% of the net cash flow from the Waskahigan Assets (subject to farmout rights) for 2.5 times net cash flow; and (d) right to compel TAPC to buy Smoky's right to 24% of the net cash flow from the Waskahigan Participation Assets (subject to farmout rights) for 2.5 times net cash flow from the Waskahigan Participation Assets (hereinafter called the "Post Payout Additional Consideration").

On May 6, 2019 the TAPC LPA was amended and the loan was converted to a demand loan. As at March 31, 2021 and December 31, 2020, the loan is presented at its face value and is subject to interest at a rate of 6% per annum, which is payable quarterly. The TAPC LPA contained a restriction to charging a maximum of \$75,000 per year for general and administration costs for the administration of the Waskahigan Assets and \$75,000 per year for the administration of the Waskahigan Participation Assets. TAPC was not in compliance with the terms of the TAPC LPA as general and administrative charges have exceeded the maximum allowable amounts as noted above.

By novation agreement effective January 1, 2021, WOGC and Odaat agreed to assume the obligations to Smoky ("WOGC/Odaat LPA") under the TAPC LPA and Smoky released TAPC from the obligations upon completion of the Plan of Arrangement and in accordance with the Transition Agreement. WOGC and Odaat granted a general security agreement in favour of Smoky pledging all of the assets in support of the debt. WOGC/Odaat are not in compliance with the terms of the WOGC/Odaat LPA as general and administrative charges have exceeded the maximum allowable amounts as noted above. As of the date of approval of these consolidated financial statements, the lender has not demanded repayment but retains the right to do so.

10. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total undiscounted cash flows to settle its asset retirement obligations are approximately \$1,123,493 (2021 - \$1,431,859) which will be settled over the operating lives of the underlying assets, estimated to occur between 2023 and 2037. A risk-free interest rate of 3.41% (2021 - 1.25%) and an estimated inflation rate of 2.0% (2021 - 2.0%) was used to calculate the present value

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of asset retirement obligations.

The following table reconciles the asset retirement obligations:

	2022	2021
Balance, beginning of year	\$ 1,327,713	\$ 30,176
Acquisitions	-	1,374,117
Revisions	(161,589)	(82,950)
Expenditures	(77,605)	(388)
Foreign exchange	777	(296)
Accretion	38,932	7,054
Adjustment on disposal	(4,735)	-
Balance, end of year	1,123,493	1,327,713
Less: current portion	(311,572)	(288,826)
Long term portion	\$ 811,921	\$ 1,038,887

11. SHARE CAPITAL

Authorized:

Unlimited	Common voting shares with no par value
Unlimited	Preferred shares, issuable in series, with rights and privileges to be determined at time of issue

Issued:

Common shares	Number of shares	Value
Balance, December 31, 2020	100	\$ 100
Plan of arrangement	10,512,568	-
Shares returned to treasury	(100)	-
Restated balance, December 31, 2020	10,512,568	100
Private Placements	2,000,000	100,000
Shares issued to settle accounts payable	684,300	34,215
Balance, December 31, 2021 and 2022	13,196,868	134,315

On December 14, 2021, the Company issued 2,000,000 shares to a company controlled by a director for consideration of \$100,000 to be used in accordance with the Transition Agreement that was in place subsequent to the Plan of Arrangement. These funds were placed in trust and must be used for liabilities that existed as of September 30, 2021.

On December 14, 2021, the Company issued 684,300 common shares to a company controlled by a director to settle accounts payable of \$34,215.

On completion of the Plan of Arrangement, 100 common shares issued on incorporation were returned to treasury and the Company re-issued 10,512,568 common shareholders to the existing shareholders of TAPC. The comparative period number of shares has been restated to reflect this transaction having occurred has been reflected as if it occurred on January 1, 2020.

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12. RELATED PARTY TRANSACTIONS

The Company has determined that the key management personnel of the Company consist of its officers and directors. The following table provides information on compensation expense related to officers and directors.

		2022	2021
Consulting fees to a company controlled by directors	\$	198,250	\$ 170,978
Consulting fees to a company controlled by a director	\$	25,560	\$ 4,889
Total	\$	223,810	\$ 175,867

Included in accounts payable are amounts owing to a company controlled by directors \$68,993 (2021 – \$nil).

As disclosed in Note 9, TAPC entered into a TAPC LPA with Smoky and 1454871 on July 31, 2017. Pursuant to the terms of the TAPC LPA, Smoky lent TAPC the sum of \$1,326,593 to complete the Waskahigan Asset acquisition. The interest rate on the loan principal is 6% per annum. On May 6, 2019, the terms of the loan were modified to include a demand feature. Pursuant to an intercreditor agreement dated effective January 1, 2021 (“Intercreditor Agreement”) amongst TAPC, WOGC, Odaat and Smoky, Smoky agreed to assume the debts owing by TAPC effective January 1, 2021 (referred to as the WOGC/Odaat LPA) and to release TAPC from the loans upon completion of the Plan of Arrangement. The loan value as of January 1, 2021 was \$1,152,174. The Company incurred interest expense of \$64,697 (2021 – 68,312) during the year ended December 31, 2021 on this loan. All obligations owing are secured by a general security agreement charging all of the assets of WOGC/Odaat. Gregory J. Leia is President and a director of WOGC, Odaat, Jadela US and BlocNRG and is an officer and director of Smoky and 1454871. Gregory J. Leia owns approx. 65% of the common shares and preferred shares of Smoky.

13. PER SHARE AMOUNTS

Basic income (loss) per share has been calculated using the weighted average number of common shares outstanding during the year of 13,196,868 (2021 – 11,127,217).

14. FINANCIAL INSTRUMENTS

The Company’s financial instruments are exposed to certain financial risks, including credit risk, capital market risk and liquidity risk, interest rate risk, commodity price risk and foreign exchange risk.

Financial instruments, consisting of cash and cash equivalents, short term investments, trade and other receivables, restricted cash held in trust, restricted investments, accounts payable and accrued liabilities, and loan payable are recorded at amortized cost. There are no financial instruments recorded at fair value. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy as following:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in

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Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2022, the Company's financial instruments approximate their fair value due to their current nature.

Financial instrument	Classification	Carrying Value (\$)	Fair Value (\$)
Cash and cash equivalents	Amortized cost	69,530	69,530
Trade and other receivables	Amortized cost	137,296	137,296
Short term investments	Amortized cost	-	-
Restricted cash held in trust	Amortized cost	164,629	164,629
Restricted investments	Amortized cost	152,694	152,694
Accounts payable and accrued liabilities	Amortized cost	534,565	534,565
Loan payable	Amortized cost	1,096,419	1,096,419

Credit risk – Consists of cash and cash equivalents, restricted cash held in trust, restricted investments, and trade and other accounts receivable. A portion of the Company's trade accounts receivable are with joint venture partners in the petroleum and natural gas industry and are subject to normal credit terms. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. The Company is also exposed to credit risk on certain deposits to the extent that the Company may not be refunded these amounts. The Company does not anticipate any default or non-performance by its oil and gas sales customers. As such, a provision for doubtful accounts has not been recorded at December 31, 2022 (2021 - \$nil).

Liquidity risk - The Company approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has, to date, required funds from private placements to finance capital expenditures and operations (see note 1).

The Company's financial liabilities and contractual obligations as at December 31, 2022 are due as follows:

Accounts payable and accrued liabilities	\$	534,565	Due within 90 days
Loan payable	\$	1,096,419	Due on demand

Commodity price risk - The Company is exposed to oil and gas commodity price risk and has not entered any financial derivatives to manage this risk.

WASKAHIGAN OIL & GAS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

In Canadian Dollars

	2022	2021
Commodity price risk sensitivity	Increase (decrease) to net income	Increase (decrease) to net income
Increase of \$1.00/bbl oil	\$ 281	\$ 429
Decrease of \$1.00/bbl of oil	\$ (281)	\$ (429)
Increase of \$0.10/Mcf of natural gas	\$ 16,632	\$ 20,910
Decrease of \$0.10/Mcf of natural gas	\$ (16,632)	\$ (20,910)

Interest rate risk – The risk that future cash flows will fluctuate as a result of changes in market rates. The Company is exposed to fair value interest rate risk on its loan payable as the rate is fixed.

15. CAPITAL DISCLOSURES

The Company' has defined its capital to mean its consolidated shareholders' equity and loan payable. The Company's objective when managing capital is to maintain the confidence of shareholders and investors in the implementation of its business plans by maintaining sufficient levels of liquidity to fund and support its exploration and development as well as other corporate activities. The Company's capital historically has been derived from the issuance of equity or debt. Management monitors its financial position on an ongoing basis. Equity or debt are issued to exploration programs and the Company's operations (see note 1).

16. INCOME TAXES

The provision for income tax differ from the results that would be obtained by applying the combined Canadian and Provincial tax rates of approximately 23.0% (2021 – 23%). The reasons for these differences are as follows:

	2022	2021
Loss before income taxes	\$ (208,199)	\$ (17,123)
Statutory tax rate	23.00%	23.00%
Expected income tax expense (recovery)	(47,886)	(3,938)
Foreign exchange on tax losses	(185,108)	-
Other	(523)	346
Acquisition of tax losses	-	(2,709,923)
Valuation allowance	233,517	2,713,515
Income tax provision	\$ -	\$ -

The following deferred tax assets have not been recognized in the consolidated financial statements because it is not probable that future taxable profits will be available against which they can be utilized.

	2022	2021
Property and equipment	\$ (323,991)	\$ (280,033)
Asset retirement obligation	258,403	305,374
Non-capital losses carried forward	3,020,185	2,756,249
Unrecognized net deferred tax assets	\$ 2,954,597	\$ 2,781,590

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In Canadian Dollars

The Company has Canadian non-capital loss carry forwards of approximately \$544,000 (2021 - \$200,000) that will expire between 2032 and 2042 and U.S. non-capital loss carry forwards of approximately USD \$10,200,000 (2021 – USD \$10,200,000) that expire between 2031 and 2035.

17. CHANGES IN NON-CASH WORKING CAPITAL

The breakdown of the changes in the non-cash working capital is as follows:

	2022	2021
Restricted cash held in trust	\$ 30,000	\$ (70,000)
Trade and other receivables	(43,226)	(16,825)
Short term investments	14,218	(2)
Prepaid expenses and deposits	(75,650)	17,234
Accounts payable and accrued liabilities	346,264	(48,732)
Deferred income	(4,495)	(2,204)
Total	\$ 267,111	\$ (120,529)

18. REVENUE

The Company sells its oil, natural gas, and natural gas liquids production pursuant to variable price contracts. The transaction price for variable priced contracts is based on a benchmark commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenues are typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point.

The following table presents the Company's production disaggregated by revenue source:

	2022	2021
Crude oil	\$ 31,891	\$ 30,601
Natural gas	901,680	807,710
Condensate	279,887	200,934
Total	\$ 1,213,458	\$ 1,039,245

19. GOVERNMENT ASSISTANCE

In 2022, as part of the Alberta Site Rehabilitation Program (SRP), the Alberta government provided funding in the amount of \$14,000 (2021 - Nil) towards the abandonment expenditures of one of the Company's wells. The amount was recognized as Other Income in the statement of net loss.

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19. SUBSEQUENT EVENT

Effective, January 1, 2023, WOGC, Fox Creek and Odaat entered into a plan of arrangement. The terms provide that upon satisfaction of all conditions, WOGC will dividend the shares of Fox Creek to the shareholders of WOGC, thereby spinning out its wholly owned subsidiary. The shareholders of WOGC approved the plan of arrangement on April 4, 2023. The Court of King's Bench of Alberta approved the plan of arrangement on April 6, 2023. The plan of arrangement is conditional upon CSE approval and completion of a reverse takeover of WOGC. WOGC has not entered into an agreement which would constitute a reverse takeover.