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**JX Energy Ltd.**  
**(吉星新能源有限責任公司)\***

*(incorporated under the laws of Alberta with limited liability)*

**(Stock Code: 3395)**

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

The board of directors (the “**Board**”) of JX Energy Ltd. (the “**Company**”) is pleased to announce the financial results of the Company for the year ended December 31, 2022 (the “**Annual Results**”). This announcement is issued by the Company pursuant to Rules 13.49(1) and 13.49(2) of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Board and the Company’s audit and risk committee have reviewed the Annual Results and the Annual Results have been agreed with the Auditor. Please see the attached announcement for further information.

By Order of the Board  
**JX Energy Ltd.**  
**Yongtan Liu**  
*Chairman*

Calgary, March 30, 2023

Hong Kong, March 30, 2023

*As at the date of this announcement, the Board comprises of two executive Directors, being Mr. Yongtan Liu and Mr. Pingzai Wang; and three independent non-executive Directors, namely Mr. Richard Dale Orman, Mr. Peter David Robertson and Mr. Larry Grant Smith.*

\* *For identification purpose only*

## STATEMENT OF FINANCIAL POSITION

As at December 31, 2022

(Expressed in Canadian dollars)

	<i>Note</i>	As at December 31, 2022	As at December 31, 2021
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	7	333,227	587,933
Accounts receivable	8	2,629,405	2,345,510
Prepaid expenses and deposits		<u>664,525</u>	<u>454,460</u>
Total current assets		3,627,157	3,387,903
Exploration and evaluation assets	9	10,257,507	6,696,957
Property, plant and equipment	10	37,086,262	40,744,552
Right of use assets	11	<u>1,427,937</u>	<u>2,152,765</u>
<b>Total Assets</b>		<u><b>52,398,863</b></u>	<u><b>52,982,177</b></u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	12	20,882,800	17,144,921
Current portion of long term debt	13	18,137,430	8,000,000
Current portion of lease liabilities	11	868,595	812,355
Decommissioning liabilities	14	<u>706,300</u>	<u>170,526</u>
Total current liabilities		40,595,125	26,127,802
Other liabilities	15	655,764	598,850
Lease liabilities	11	861,879	1,635,918
Long term debt	13	—	17,354,961
Decommissioning liabilities	14	<u>1,608,545</u>	<u>2,250,837</u>
<b>Total liabilities</b>		<u><b>43,721,313</b></u>	<u><b>47,968,368</b></u>

	<i>Note</i>	<b>As at December 31, 2022</b>	As at December 31, 2021
Shareholders' equity:			
Share capital	<i>16</i>	<b>219,802,889</b>	215,922,331
Warrants	<i>16</i>	<b>647,034</b>	647,034
Contributed surplus	<i>16</i>	<b>5,886,146</b>	2,523,642
Accumulated deficit		<u><b>(217,658,519)</b></u>	<u>(214,079,198)</u>
 Total shareholders' equity		 <u><b>8,677,550</b></u>	 <u>5,013,809</u>
 <b>Total Liabilities and Shareholders' Equity</b>		 <u><b>52,398,863</b></u>	 <u>52,982,177</u>
 <b>Going concern</b>	 <i>3</i>		
<b>Commitments</b>	<i>28</i>		
<b>Subsequent Event</b>	<i>29</i>		

The accompanying notes form part of these annual financial statements.

## STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31, 2022

(Expressed in Canadian dollars)

		Year ended December 31,	
	Note	2022	2021
<b>Revenue</b>			
Commodity sales from production	17	26,802,105	21,480,284
Trading revenue (loss)	17	152,191	(11,117)
Other income	17	77,414	48,392
Royalty expense		<u>(4,668,861)</u>	<u>(2,663,408)</u>
Total net revenue		22,362,849	18,854,151
<b>Expenses</b>			
Operating costs		(12,824,666)	(14,382,786)
General and administrative costs		(3,007,629)	(2,966,068)
Depletion, depreciation and amortization	10,11	(6,089,437)	(5,572,190)
(Write-offs) and impairment recovery	18	<u>(763,280)</u>	<u>4,312,670</u>
Total expenses		<u>(22,685,012)</u>	<u>(18,608,374)</u>
<b>(Loss) income from operations</b>		<b>(322,163)</b>	245,777
Finance expenses	22	<u>(3,257,158)</u>	<u>(5,054,592)</u>
<b>(Loss) before taxes</b>		<b>(3,579,321)</b>	(4,808,815)
Income taxes	23	<u>—</u>	<u>—</u>
<b>(Loss) and comprehensive (loss)</b>		<b><u>(3,579,321)</u></b>	<b><u>(4,808,815)</u></b>
<b>(Loss) per share</b>			
Basic and diluted	24	<u>(0.01)</u>	<u>(0.01)</u>

The accompanying notes form part of these annual financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2022

(Expressed in Canadian dollars)

	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Total Equity
At January 1, 2022	16	215,922,331	647,034	2,523,642	(214,079,198)	5,013,809
Shares issued for cash		7,233,985	—	—	—	7,233,985
Allocation for shares issued above market value		(3,305,584)	—	3,305,584	—	—
Share issue costs		(47,843)	—	—	—	(47,843)
Share-based expenses		—	—	56,920	—	56,920
Income for the period		—	—	—	(3,579,321)	(3,579,321)
<b>At December 31, 2022</b>		<b><u>219,802,889</u></b>	<b><u>647,034</u></b>	<b><u>5,886,146</u></b>	<b><u>(217,658,519)</u></b>	<b><u>8,677,550</u></b>
At January 1, 2021	16	213,426,683	647,034	358,042	(209,270,383)	5,161,376
Shares issued for cash		4,608,100	—	—	—	4,608,100
Allocation for shares issued above market value		(2,048,000)	—	2,048,000	—	—
Share issue costs		(64,452)	—	—	—	(64,452)
Share-based expenses		—	—	117,600	—	117,600
Loss for the year		—	—	—	(4,808,815)	(4,808,815)
<b>At December 31, 2021</b>		<b><u>215,922,331</u></b>	<b><u>647,034</u></b>	<b><u>2,523,642</u></b>	<b><u>(214,079,198)</u></b>	<b><u>5,013,809</u></b>

The accompanying notes form part of these annual financial statements.

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

(Expressed in Canadian dollars)

	<i>Note</i>	Year ended December 31,	
		2022	2021
<b>Cash provided by (used in):</b>			
<b>Operations</b>			
Net income (loss)		(3,579,321)	(4,808,814)
Items not involving cash:			
Depletion, depreciation and amortization		6,089,437	5,572,190
Share-based expenses		56,920	117,600
Non-cash finance expenses		1,129,137	1,383,813
Unrealized foreign exchange (gain) loss		(75)	607
Impairment (recovery) and write-offs		<u>763,280</u>	<u>(4,312,670)</u>
Funds from operations		4,459,378	(2,047,275)
Changes in non-cash working capital	7	<u>8,819,881</u>	<u>4,308,621</u>
Total cash from operations		13,279,259	2,261,346
<b>Investing</b>			
Expenditures on property, plant and equipment		(9,828,738)	(4,889,600)
Expenditures on exploration and evaluation assets		<u>(1,866,017)</u>	<u>—</u>
Net cash (used in) investing		(11,694,755)	(4,889,600)
<b>Financing</b>			
Shares issued for cash, net share issuance costs		7,186,142	4,543,648
Proceeds from Jixing Energy		458,254	—
Repayment of shareholders' loans		(3,440,567)	—
Principal portion of lease payments		(753,261)	(726,083)
Interest portion of lease payments		(289,854)	(295,333)
Repayment of debt		(5,000,000)	(4,377,011)
Proceeds from debt		<u>—</u>	<u>3,000,000</u>
Net cash (used in) generated from financing		(1,839,285)	2,145,221
<b>(Decrease) in cash and cash equivalents</b>		(254,781)	(483,033)
Effect of exchange rate changes on cash and cash equivalents		75	(607)
Cash and cash equivalents, beginning of period		<u>587,933</u>	<u>1,071,573</u>
<b>Cash and cash equivalents, end of period</b>		<u><u>333,227</u></u>	<u><u>587,933</u></u>
<b>Supplementary information:</b>			
Interest paid		<u><u>1,910,794</u></u>	<u><u>3,295,811</u></u>

The accompanying notes form part of these annual financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2022*

(Expressed in Canadian dollars unless otherwise indicated)

### 1 CORPORATE INFORMATION

**JX Energy Ltd.**, formerly Persta Resources Inc. (the “**Company**” or “**JX**”) was incorporated in Calgary, Alberta, Canada under the Business Corporations Act (Alberta) in 2005. JX is an exploration and development company pursuing petroleum and natural gas production in Alberta, Canada. The Company’s registered office is located at 15th Floor, Bankers Court, 850-2nd Street SW, Calgary, Alberta, T2P 0R8, Canada, and its head office is located at Suite 900, 717-7th Avenue SW, Calgary, Alberta, T2P 0Z3, Canada.

Pursuant to an initial public offering on March 10, 2017, the Company’s shares were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and traded under the stock code of “3395”. The Company has been a reporting issuer under the Securities Act (Alberta) since October 2, 2018. On June 22, 2022, shareholders of the Company (“**Shareholders**”) approved the change of the Company’s name from Persta Resources Inc. to JX Energy Ltd.

### 2 BASIS OF PREPARATION

#### (a) Statement of compliance

The financial statements set out in this report have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”), as issued by the International Accounting Standards Board (“**IASB**”). The IASB has issued a number of revised IFRSs effective January 1, 2022. For the purpose of preparing these financial statements, the Company has adopted all applicable revised IFRSs for the years ended December 31, 2022 and 2021 (refer to Note 4).

The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies set out below have been applied consistently in all years presented in the financial statements. See Notes 4(r) and 4(s).

The financial statements were authorized for issue by the board on March 30, 2023.

#### (b) Basis of measurement

The financial statements are prepared on the historical cost basis except for the forward contracts for trading of natural gases which are measured at fair value as explained in accounting policies set out in Note 4. The Company held no outstanding forward contracts as at December 31, 2022 and 2021.

#### (c) Functional and presentation currency

The financial statements are presented in Canadian dollars (“**C\$**”), which is the Company’s functional currency.

#### (d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various

other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

The financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

### **3 GOING CONCERN**

On March 11, 2022, the Company and lender agreed to restructure the aforesaid subordinated debt facility (the “**2022 Restructuring**”). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13) have been waived for the remainder of the loan term. The Company has settled principal payment as agreed in the 2022 Restructuring as of the date of approval of the financial statements. On 27 March 2023, the Company repaid the outstanding subordinated debt balance of C\$15.75 million plus interest of C\$115,958.91.

The global impact of COVID-19 has resulted in significant volatility in global stock markets has created a great deal of uncertainty in the global economy and specifically volatility of natural gas price has significantly affected the operating performance of the Company. These factors may have a significant impact on the Company’s operations and its ability to raise financing to meet its debt covenants.

The Company’s ability to continue as a going concern is dependent upon the ability to generate positive cash flow from operations, obtain equity financing, dispose of assets or other arrangements to fund operating and investing activities. There are no assurances that any waivers will be obtained or transactions will be completed, on terms acceptable to the Company. These conditions cause material uncertainty which cast significant doubt on the Company’s ability to continue as a going concern. Notwithstanding this, based on the cash flow projection, the directors of the Company consider that it is appropriate to prepare the financial statements on a going concern basis.

### **4 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies have been applied consistently in all years presented in these financial statements.

#### **(a) Joint arrangements**

Joint arrangements are contractual arrangements classified as either joint operations or joint ventures. Joint operations exist when the Company has rights to the assets and obligations for the liabilities, relating to an arrangement. As such, the financial statements only include the Company’s share of its assets, liabilities and transactions associated with its joint operations.



**(b) Revenue recognition**

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

***Sales of crude oil, natural gas and natural gas liquids***

Revenue from the sale of crude oil and natural gas is recognized when title to the products passes to the purchasers based on volumes delivered at contracted delivery points and prices and are recorded gross of transportation charges incurred by the Company. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

***Trading revenue***

Trading revenue is realized when the Company purchases natural gas on the open market to meet its forward sale obligations. It is measured at the fair value of the consideration received or receivable, net of the costs incurred to purchase the natural gas.

***Other income***

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate under the effective interest method.

**(c) Finance income and expenses**

Finance income is comprised of interest income. Finance expenses are recognized as the interest accrues, using the effective interest method. The effective interest method uses the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Finance expense comprises interest expense and other fees on the bank loan and various other loans, amortization of debt issue costs, accretion of the discount on decommissioning liabilities, commitment charges and foreign exchange gains and losses on foreign currency transactions.

**(d) Financial instruments**

The Company recognizes financial assets and financial liabilities on the statement of financial position when the Company becomes a party to the contract. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized from the financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

**(i) Financial assets**

- *Amortized cost*

A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.

- *Fair value through other comprehensive income (“FVTOCI”)*

A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (“SPPI”) on the principal amount outstanding.

- *Fair value through profit or loss (“FVTPL”)*

All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, this includes all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. For financial assets and liabilities, the Company may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of commodity in accordance with the Company’s expected purchase, sale or usage fall within the normal purchase or sale exemption and are accounted for as executory contracts.

- *Impairment of financial assets*

Financial assets are assessed with an expected credit loss (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

The Company recognizes loss allowances for ECL on trade receivables and financial assets at amortized cost. ECLs are measured on either of the following bases:

- 12-months ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Company measured loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Company has established a provision matrix that is based on the Company’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, ECLs are based on lifetime ECLs except when there has not been a significant increase in credit risk since initial recognition, in which case the allowance will be based on the 12-months ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to action such as realizing security (if any is held); or the financial asset is more than 90 days past due.

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, for example when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

**(ii) *Financial liabilities***

The Company classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortized costs are initially measured at fair value, net of directly attributable costs incurred.

- *Financial liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing the gains or losses on them on a different basis; (ii) the liabilities are part of a Company of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise, except for the gains and losses arising from the Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of loss and comprehensive loss. The net fair value gain or loss recognized in the statement of profit or loss does not include any interest charged on these financial liabilities.

- *Financial liabilities at amortized cost*

Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in profit or loss.

Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

- *Effective Interest methods*

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

**(e) Exploration and evaluation assets**

Exploration and evaluation (“**E&E**”) assets include costs capitalized by the Company in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. E&E expenditures, including the costs of acquiring licenses and directly attributable general and administrative costs (“**G&A**”), geological and geophysical costs, other direct costs of exploration (drilling, trenching, sampling and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as E&E assets. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

E&E assets are initially capitalized as intangible assets and are not amortized. E&E assets are assessed for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. An impairment loss is recognized in profit or loss and separately disclosed.

Once the technical feasibility and commercial viability is determined, E&E assets attributable to that area are assessed for impairment with any impairment loss recognized in profit or loss. The remaining carrying value of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment. Technical feasibility and commercial viability is generally considered to be determined when proved plus probable reserves are determined to exist and commercial production of oil and gas has commenced on the license or field.

For divestitures of E&E assets, a gain or loss is recognized in profit or loss for the difference between the net disposal proceeds and the carrying amount of the asset. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

**(f) Property, plant and equipment**

Property, plant and equipment (“**PP&E**”) of the Company consists of development and production assets and office equipment.

*Development and production assets*

Development and production assets are carried at cost less accumulated depletion, depreciation, amortization and impairment losses. The cost of a development and production asset includes the initial purchase price and directly attributable expenditures to develop, construct and complete an asset. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers from E&E assets. Any costs directly attributable to bringing the asset to the location and condition necessary to operate as intended by management, and which result in an identifiable future benefit, are capitalized, including directly attributable G&A costs. Improvements that increase the capacity or extend the useful lives of related assets are also capitalized.

For divestitures of properties, a gain or loss is recognized in profit or loss for the difference between the net disposal proceeds and the carrying amount of the asset. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

**(g) Impairments**

Development and production assets and right-of-use assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “**cash-generating unit**” or “**CGU**”).

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal (“**FVLCD**”).

Value in use is estimated by consideration of the following:

- (i) net present value of the proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs using a pre-tax discount rate; and
- (ii) management’s estimate of net present value of additional asset development not included in (i) above, using a pre-tax discount rate.

FVLCD is estimated by consideration of the following:

- (i) net present value of proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs using a pre-tax discount rate;
- (ii) management’s estimate of fair value of undeveloped land;
- (iii) a review of the values indicated by the metrics of recent market transactions of similar assets within the oil and gas industry; and;
- (iv) management’s estimate of additional fair value from asset development not included in (i) above.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

**(h) Reversal of impairment**

An impairment loss may be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and depletion, if no impairment loss had been recognized and circumstances indicate the loss no longer exists or is decreased. An impairment loss reversal is recognized in profit or loss.

**(i) Depletion and depreciation**

Depletion of development and production assets is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion and depreciation are based on total capitalized costs plus estimated future development costs of proved plus probable reserves.

Depreciation of other assets is provided for on a 20%–100% declining balance basis.

**(j) Decommissioning liability**

The Company records a liability for the legal obligation associated with the retirement of long-lived tangible assets at the time the liability is incurred, normally when a long-lived tangible asset is purchased or developed, discounted to its present value using a risk-free interest rate. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the decommissioning liability cost, which is depleted on a unit-of-production basis over the life of the estimated proved plus probable reserves, before royalties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to profit or loss in the period. The decommissioning liability obligation can also increase or decrease due to changes in estimates of timing of cash flow, changes in the original estimated undiscounted cost or changes in the discount rate. The decommissioning liability obligation is re-measured at each reporting date using the risk-free rate in effect at that time and the changes in fair value are capitalized as property, plant and equipment. Actual costs incurred upon settlement of the obligations are charged against the liability.

**(k) Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

The Company may incur various costs when issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Costs related to a planned equity offering not completed at the financial statement date are recorded as deferred financing costs until the offering is either completed or abandoned. The costs of an equity transaction that is abandoned are recognized as an expense.

**(l) Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is recognized directly in shareholders' equity.

Current income taxes payable are based on taxable earnings for the year. Taxable earnings differs from profit before income taxes as reported in the statement of loss and comprehensive loss because of items of income or expense that are taxable or deductible in different years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period. Current taxes are recognized in profit or loss.

The Company follows the statement of financial position method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability.

Deferred income tax is calculated using the enacted or substantively enacted income tax rates expected to apply when the assets are realized or the liabilities are settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss or shareholders' equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized only to the extent that it is probable that future taxable earnings will be available against which the assets can be utilized. Deferred tax assets are reduced to the extent that it is not probable that sufficient tax earnings will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset only when a legally enforceable right of offset exists and the deferred tax assets and liabilities arose in the same tax jurisdiction and relate to the same taxable entity.

**(m) Related party transactions**

- (a) A person, or a close member of that person's family, is related to the Company if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.



- (vi) The entity is controlled or jointly-controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**(n) Cash and cash equivalents**

Cash and cash equivalents can consist of cash in bank and short-term highly liquid investments with original maturities of three months or less.

**(o) Loss per share**

Basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to shareholders and the weighted average number of shares outstanding for the effects of all potential shares, which is comprised of any outstanding awards, options or warrants.

**(p) Leases**

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. The Company applies judgement when reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Contractual arrangements containing a lease are then subject to various areas of judgement including the lease term and discount rate.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future

lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leased assets that have a lease term of 12 months or less and leases of low-value assets defined as leases with an annual obligation of C\$5,000 or less. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(q) Share-based payments**

The Company applies the fair-value method for valuing share option grants. Under this method, compensation cost attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of the share options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company has a cash-settled incentive award plan (the “**Phantom Unit Plan**”) pursuant to which incentive awards may be granted to eligible directors as detailed in Note 19. Each incentive award entitles the holder to receive a cash payment equal to the value of one JX common share. The cumulative expense is recognized at fair value at each period end and is included in trade and other payables.

**(r) Adoption of revised standards and interpretations**

The following new IFRS standards and interpretations were adopted by the Company on January 1, 2022:

Amendments to IAS 16	<i>Property, Plant and Equipment — Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	<i>Annual Improvements to IFRSs 2018–2020</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>

There have been no new IFRSs or IFRIC interpretations that have a material impact on the Company’s results and financial position for the year ended December 31, 2022. The Company has not early applied any new or amended IFRSs that is not yet effective for the year ended December 31, 2022.

(s) **Standards issued but not yet effective**

The following new and revised IFRSs, potentially relevant to the Company's financial statements have been issued, but are not yet effective and have not been early adopted by the Company:

Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>2</sup>
Amendments to IAS 1	Classification of Liabilities with Covenants <sup>2</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction <sup>1</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>1</sup>
Amendments to IFRS 16	Lease liability on a sale and Leaseback <sup>2</sup>

(1) Effective for annual periods beginning on or after January 1, 2023.

(2) Effective for annual periods beginning on or after January 1, 2024.

The Company is in the process of assessing what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

## 5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. 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.

### **Critical judgments in applying accounting policies**

The following are critical judgments that management has made in the process of applying the Company's IFRS accounting policies that have the most significant effect on the amounts recognized in the financial statements:

(i) ***Identification of CGUs***

The Company's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods.

(ii) ***Identification of impairment indicators, assessment of impairment and impairment recovery***

IFRS requires the Company to assess, at each reporting date, whether there are any indicators that its non-financial assets may be impaired. The Company is required to consider information from both external sources (such as a negative downturn in commodity prices and significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in

reserves, significant adverse effect on the financial and operational performance of a CGU and evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods.

**(iii) Lease arrangements**

The Company applies judgement when reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Contractual arrangements containing a lease are then subject to various areas of judgement including the lease term and lessee incremental borrowing rate.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the sources of estimation uncertainty for the year ended December 31, 2022 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

**(i) Reserves**

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of the reservoir, and the anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from JX's petroleum and natural gas interests are evaluated by independent reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if supported by either production or conclusive formation tests. JX's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

**(ii) Decommissioning obligations**

The Company estimates future remediation costs of production facilities, well sites and gathering systems at different stages of development and construction of assets. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

**(iii) *Impairment of non-financial assets***

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Company's assets, and impairment charges and reversals will affect income or loss.

**(iv) *Going concern assumption***

The directors of the Company have prepared the financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognized in the financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 3 to the financial statements, the Company has the capability to continue as a going concern.

**(v) *Taxes***

The Company files corporate income tax, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of any differing tax positions through negotiations or litigation with tax authorities can take several years to complete. The Company does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2022 and 2021, the Company has not recorded any deferred tax assets or liabilities due to the uncertainty of future taxable profits.

**(vi) *Share-based expenses***

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

## 6 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts presented in the statement of financial position related to the following categories of financial assets and financial liabilities:

<i>C\$</i>	<b>As at December 31, 2022</b>	As at December 31, 2021
<b>Financial assets</b>		
Financial assets measured at amortised cost:		
Cash and cash equivalents	333,227	587,933
Accounts receivable	<u>2,629,405</u>	<u>2,345,510</u>
	<u><b>2,962,632</b></u>	<u>2,933,443</u>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost:		
Accounts payable and accrued liabilities	20,882,800	17,144,921
Long term debt	18,137,430	25,354,961
Lease liabilities	1,730,474	2,448,273
Decommissioning liabilities	2,314,845	2,421,363
Other liabilities	<u>655,764</u>	<u>598,850</u>
	<u><b>43,721,313</b></u>	<u>47,968,368</u>

Due to their short-term nature, the carrying value of short term financial assets and liabilities approximates to their fair value.

## 7 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents

<i>C\$</i>	<b>As at December 31, 2022</b>	As at December 31, 2021
Deposits with banks and other financial institutions	<b>3,181</b>	585,928
Cash on hand	<u><b>330,046</b></u>	<u>2,005</u>
Cash and cash equivalents in the statement of financial position and statement of cash flows	<u><b>333,227</b></u>	<u>587,933</u>

### (b) Supplementary cash flows information

<i>C\$</i>	<b>Year ended December 31,</b>	
	<b>2022</b>	2021
Change in non-cash working capital:		
Accounts receivable	<b>(283,895)</b>	(358,660)
Prepaid expenses and deposits	<b>(210,065)</b>	26,333
Accounts payable and accrued liabilities	<u><b>3,794,793</b></u>	<u>9,196,441</u>
	<b>3,300,833</b>	8,864,114
Change in non-cash working capital included in investing and financing activities	<u><b>(5,519,049)</b></u>	<u>4,555,493</u>
Change in non-cash working capital included in operating activities	<u><b>3,300,833</b></u>	<u>8,864,114</u>

(c) **Reconciliation of liabilities arising from financing activities**

<i>C\$</i>	<b>Lease liabilities</b>	<b>Shareholder loans</b>	<b>Subordinated debt</b>	<b>Total</b>
At January 1, 2021	2,631,628	2,533,290	23,142,661	28,307,579
Changes from financing cash flows:				
Proceeds from debt	—	3,000,000	—	3,000,000
Interest paid	—	—	(3,295,811)	(3,295,811)
Principal repayment of lease liabilities	(726,083)	—	(4,377,011)	(5,103,094)
Interest repayment of lease liabilities	<u>(295,333)</u>	<u>—</u>	<u>—</u>	<u>(295,333)</u>
Changes from financing cash flows	<u>(1,021,416)</u>	<u>3,000,000</u>	<u>(7,672,822)</u>	<u>(5,694,238)</u>
Other charges:				
Lease additions	542,728	—	—	542,728
Interest expenses	295,333	—	3,295,811	3,591,144
Accrued and unpaid debt interest	—	—	591,711	591,711
Change in deferred debt costs	—	—	490,593	490,593
Accretion expense	<u>—</u>	<u>(26,283)</u>	<u>—</u>	<u>(26,283)</u>
Other charges	<u>838,061</u>	<u>(26,283)</u>	<u>4,378,115</u>	<u>5,189,893</u>
At December 31, 2021	<u>2,448,273</u>	<u>5,507,007</u>	<u>19,847,954</u>	<u>27,803,234</u>
<b>At January 1, 2022</b>	2,448,273	5,507,007	19,847,954	27,803,234
Changes from financing cash flows:				
Proceeds from debt	—	458,254	—	458,254
Interest paid	—	—	(1,910,794)	(1,910,794)
Principal repayment	(753,261)	(3,440,567)	(5,000,000)	(9,193,828)
Interest repayment of lease liabilities	<u>(289,854)</u>	<u>—</u>	<u>—</u>	<u>(289,854)</u>
Changes from financing cash flows	<u>(1,043,115)</u>	<u>(2,982,313)</u>	<u>(6,910,794)</u>	<u>(10,936,222)</u>
Other charges:				
Lease additions	35,462	—	—	35,462
Interest expenses	289,854	—	1,910,794	2,200,648
Change in accrued and unpaid debt interest	—	—	150,000	150,000
Change in deferred debt costs	—	—	515,777	515,777
Accretion expense	<u>—</u>	<u>99,005</u>	<u>—</u>	<u>99,005</u>
Other charges	<u>325,316</u>	<u>99,005</u>	<u>2,576,571</u>	<u>3,000,892</u>
<b>At December 31, 2022</b>	<u><u>1,730,474</u></u>	<u><u>2,623,699</u></u>	<u><u>15,513,731</u></u>	<u><u>19,867,904</u></u>



## 8 ACCOUNTS RECEIVABLE

	As at December 31, 2022	As at December 31, 2021
C\$		
Trade receivables	2,627,332	2,054,942
Other receivables	<u>2,073</u>	<u>290,568</u>
<b>Total</b>	<b><u>2,629,405</u></b>	<b><u>2,345,510</u></b>

### (a) Aging analysis of trade receivables

As at December 31, 2022 and 2021, the aging analysis of trade receivables (included in accounts receivable), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at December 31, 2022	As at December 31, 2021
C\$		
Within 1 month	2,627,332	2,054,942
1 to 3 months	—	—
Over 3 months	<u>—</u>	<u>—</u>
<b>Total</b>	<b><u>2,627,332</u></b>	<b><u>2,054,942</u></b>

Trade receivables are generally collected within 25 days from the date of billing.

### (b) Impairment of accounts receivable

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Company determines that recovery of the amount is remote, in which case the impairment loss is written off against account receivables directly. No accounts receivable are considered individually nor collectively to be impaired. No material balances of trade or other receivables are past due, and no impairment loss has been recognized for the years ended December 31, 2022 and 2021.

## 9 EXPLORATION AND EVALUATION ASSETS

C\$	As at December 31, 2022	As at December 31, 2021
Balance, beginning of period	6,696,957	6,974,847
Additions	4,903,163	—
Transfer to PP&E ( <i>Note 10</i> )	(561,874)	—
Write-offs ( <i>Note 18</i> )	<u>(780,739)</u>	<u>(277,890)</u>
<b>Balance, end of period</b>	<b><u>10,257,507</u></b>	<b><u>6,696,957</u></b>

Exploration and evaluation (“E&E”) assets consist of undeveloped lands, unevaluated seismic data and unevaluated drilling and completion costs on the Company’s exploration projects which are pending the determination of proven or probable reserves in sufficient quantity to warrant commercial development. Transfers are made to property, plant and equipment (“PP&E”) as proven or probable reserves are determined. E&E assets are expensed due to uneconomic drilling and completion activities and write-offs of lease expiries. Impairment is assessed based on the recoverable amount compared with the asset’s carrying amount to measure the amount of the impairment (refer to Note 18).

For the year ended December 31, 2022, general and administrative (“G&A”) costs of C\$nil (2021 — C\$nil) were capitalized and included in E&E additions as they were directly attributable to exploration and development activities. For the year ended December 31, 2022, the Company wrote-off C\$0.8 million (2021 — C\$0.3 million) of E&E assets attributable to land lease expiries.

### 2022 PP&E transfer

In December 2022, the Company transferred the land value of one of its Voyager properties to PP&E. In accordance with the Company’s accounting policy, all costs were assessed for impairment at the date of transfer to PP&E. As natural gas prices in the western Canadian market weakened throughout the latter half of the year, indications of impairment were identified for the 2022 Voyager PP&E transfer, and the land value was impaired as part of the impairment test on the Voyager area at the end of the year.

## 10 PROPERTY, PLANT AND EQUIPMENT

C\$	Cost	Accumulated Depletion, Depreciation, Impairment and Impairment Recovery	Net Book Value
At January 1, 2021	159,205,444	(127,407,871)	31,797,573
Additions	8,623,277	—	8,623,277
Change in decommissioning obligations	560,072	—	560,072
Depletion and depreciation	—	(4,826,930)	(4,826,930)
Impairment recovery ( <i>Note 18</i> )	—	4,590,560	4,590,560
	<hr/>	<hr/>	<hr/>
At December 31, 2021	168,388,793	(127,644,241)	40,744,552
<b>At January 1, 2022</b>	168,388,793	(127,644,241)	40,744,552
Additions	1,272,509	—	1,272,509
Transfer from E&E ( <i>Note 9</i> )	561,874	—	561,874
Change in decommissioning obligations	(181,021)	—	(181,021)
Depletion and depreciation	—	(5,329,111)	(5,329,111)
Impairment recovery ( <i>Note 18</i> )	—	17,459	17,459
	<hr/>	<hr/>	<hr/>
<b>At December 31, 2022</b>	<u>170,042,155</u>	<u>(132,955,893)</u>	<u>37,086,262</u>

Substantially all of PP&E consists of development and production assets. During the years ended December 31, 2022 and 2021, the Company's PP&E additions were comprised of expenditures at Basing and Voyager. In the fourth quarter of 2022, the Company transferred an additional C\$0.6 million of E&E assets to PP&E. Included in PP&E additions for the year ended December 31, 2022 are G&A costs of C\$0.4 million (2021: C\$0.2 million) which were capitalized in accordance with the Company's accounting policies.

### Depletion, depreciation, impairment and impairment recovery

Depletion and depreciation, impairment of PP&E, and any reversal thereof, are recognized as separate line items in the statement of loss and other comprehensive loss. The depletion calculation for the year ended December 31, 2022 includes estimated future development costs of C\$11.7 million (2021: C\$6.2 million) associated with the development of the Company's proved plus probable reserves. Impairment and impairment recovery is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment and/or impairment recovery (refer to Note 18).

## 11 RIGHT OF USE ASSETS AND LEASE LIABILITIES

### (a) Right of use assets

C\$	Oil and Gas Production	Office Space	Vehicles	Total
At January 1, 2021	507,510	1,834,761	13,026	2,355,297
Additions	542,728	—	—	542,728
Amortization	<u>(296,858)</u>	<u>(440,343)</u>	<u>(8,059)</u>	<u>(745,260)</u>
At December 31, 2021	753,380	1,394,418	4,967	2,152,765
<b>At January 1, 2022</b>	<b>753,380</b>	<b>1,394,418</b>	<b>4,967</b>	<b>2,152,765</b>
Additions	—	—	35,498	35,498
Amortization	<u>(311,934)</u>	<u>(440,343)</u>	<u>(8,049)</u>	<u>(760,326)</u>
<b>At December 31, 2022</b>	<b><u>441,446</u></b>	<b><u>954,075</u></b>	<b><u>32,416</u></b>	<b><u>1,427,937</u></b>

### (b) Lease liabilities

C\$	Oil and Gas Production	Office Space	Vehicles	Total
At January 1, 2021	509,222	2,108,569	13,837	2,631,628
Additions	542,728	—	—	542,728
Lease payment, net of interest	<u>(271,765)</u>	<u>(446,855)</u>	<u>(7,463)</u>	<u>(726,083)</u>
At December 31, 2021	780,185	1,661,714	6,374	2,448,273
<b>At January 1, 2022</b>	<b>780,185</b>	<b>1,661,714</b>	<b>6,374</b>	<b>2,448,273</b>
Additions	—	—	35,462	35,462
Lease payment, net of interest	<u>(262,385)</u>	<u>(482,603)</u>	<u>(8,273)</u>	<u>(753,261)</u>
<b>At December 31, 2022</b>	<b><u>517,800</u></b>	<b><u>1,179,111</u></b>	<b><u>33,563</u></b>	<b><u>1,730,474</u></b>

Future lease payments are due as follows:

C\$	Future lease payments	Interest	Present value
<b>At December 31, 2022</b>			
Within 1 year	1,027,040	158,445	868,595
1 to 2 years	759,540	75,795	683,745
2–5 years	195,173	17,039	178,134
Over 5 years	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<b><u>1,981,753</u></b>	<b><u>251,279</u></b>	<b><u>1,730,474</u></b>

## 12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

C\$	As at December 31, 2022	As at December 31, 2021
Trade payables	628,339	304,751
Accrued liabilities	<u>2,435,828</u>	<u>3,182,820</u>
Total trade payables and accrued liabilities	<b>3,064,167</b>	3,487,571
Due to related party	<b>10,945,782</b>	4,977,058
Capital payables	<b>6,366,066</b>	8,081,434
Other payables	<u>506,785</u>	<u>598,858</u>
<b>Total</b>	<b><u>20,882,800</u></b>	<b><u>17,144,921</u></b>

All trade payables, accrued liabilities, capital payables and other payables are expected to be settled within one year or are payable on demand. C\$10.9 million (2021: C\$4.8 million) of related party payables owed to Jixing Energy (Canada) Inc. (“**Jixing**”) which are unsecured, interest free pursuant to the Jixing Gas Handling and Voyager Compression Agreements (Note 26b) and C\$Nil (2021: C\$0.1 million) are amounts owed pursuant to the Company’s Phantom Unit Plan (Note 20). For the year ended December 31, 2022 and 2021, capital payables are primarily comprised of costs incurred for the drilling of new wells at Basing and costs incurred pursuant to the Contract (as defined below). For the years ended December 31, 2022 and 2021, other payables are primarily comprised of office renovation and rent inducement expenditures.

During the year ended December 31, 2017, the Company entered into the Master Turnkey Drilling and Completion Contract (the “**Contract**”) with an arm’s length private company. Based on the Contract, the Company shall pay the invoices either within 90 days from the date of the invoice, or by installments as follows: (i) 15% due six months from the date of invoice, (ii) 35% due 12 months from the date of invoice and (iii) 50% due 24 months from the date of invoice. Any invoice balance outstanding for more than 90 days will bear interest at 4.24% per annum, calculated annually and prorated for the number of months outstanding with no compounding. For the year ended December 31, 2022, the Company accrued interest of C\$0.15 million (2021: C\$0.19 million) in respect of the Contract. The outstanding balances are unsecured. The Company has committed to use the services of the private company to drill and complete a minimum of five wells or certain penalties would be incurred should the Company fail to do so. There were no penalties incurred up to December 31, 2022.

### Aging analysis of trade payables and accrued liabilities

As at December 31, 2022 and 2021, the aging analysis of trade payables and accrued liabilities is as follows:

C\$	As at December 31, 2022	As at December 31, 2021
Within 1 month	1,838,725	2,745,472
1 to 3 months	554,264	717,485
Over 3 months but within 6 months	<u>671,178</u>	<u>24,614</u>
<b>Total</b>	<b><u>3,064,167</u></b>	<b><u>3,487,571</u></b>

## 13 CURRENT AND LONG-TERM DEBT

C\$	As at December 31, 2022	As at December 31, 2021
Shareholder loans (net)	2,623,698	5,507,007
Subordinated debt	15,000,000	20,000,000
Accrued and unpaid interest and charges on subordinated debt	700,000	550,000
Less: deferred financing costs	<u>(186,268)</u>	<u>(702,046)</u>
<b>Total</b>	<b><u>18,137,430</u></b>	<b><u>25,354,961</u></b>
Current	18,137,430	8,000,000
Long term	<u>—</u>	<u>17,354,961</u>

### (a) Subordinated debt

On May 16, 2018, the Company completed a subordinated debt (the “**SubDebt**”) financing with an arm’s length lender (the “**SubLender**”) totaling C\$25 million. The SubDebt has a term of 60 months and bears interest at 12% per annum (the “**Base Interest**”), compounded and payable monthly. The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the SubLender. An exit fee of C\$0.75 million is payable when the SubDebt facility is repaid or at maturity on May 16, 2023. As further defined below, the SubDebt is subject to financial and operating covenants. In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C\$0.75 million.

As at December 31, 2019 and March 31, 2020, the Company was not in compliance with its net debt to total proved reserves covenant (as defined below) and therefore the debt was due on demand. Accordingly, the SubDebt was classified as a current liability as at December 31, 2020.

On April 28, 2020, the Company and SubLender agreed to restructure the loan agreement (the “**2020 Restructuring**”). Under the terms of the 2020 Restructuring, the SubLender waived the December 31, 2019 and March 31, 2020 covenant breaches, and waived financial covenants in respect of working capital, net debt to total proved reserves and net debt to trailing twelve months earnings before interest, taxes and depreciation (“**TTM EBITDA**”) for the remainder of 2020. Pursuant to the 2020 Restructuring, the SubDebt was subject to the following covenants for 2020: (a) the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C\$2 million on or before June 30, 2020 (“**2020 Funding Covenant**”) and; (b) measured at the end of each fiscal quarter maintaining the Company’s Alberta Energy liability management ratio above 2.0/1.0 (“**LMR Covenant**”).

Under the terms of the 2020 Restructuring, the following covenants are effective for the fiscal quarter ending March 31, 2021 and for all periods thereafter until the SubDebt is repaid in full: (a) net debt to TTM EBITDA not to exceed 4.5:1.0 for each fiscal quarter ending March 31, 2021 through December 31, 2021 and not to exceed 4.0:1.0 for the fiscal quarter ended March 31, 2022 and at all times thereafter; and (b) net debt to total proved reserves ratio not to exceed 0.75:1.0 as at March 31, 2021 and at all time thereafter; and (c) working capital of not less than 1.2:1.0 as at March 31, 2021 and at all times thereafter; and (d) the LMR Covenant.

Under the terms of the SubDebt and 2020 Restructuring Agreements, net debt is defined as the consolidated debt of the Company, less cash held, and excluding debt defined as capital payables (Note 12). TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters. Working capital is defined as the ratio of current assets to current liabilities. Current assets include the current assets as per the Company's financial statements excluding any unrealized hedging gains. Current liabilities include the current liabilities as per the Company's financial statements excluding any unrealized hedging losses, and excluding any amounts held in current liabilities for the SubDebt principal amount owing (amounts held in current liabilities for the SubDebt accrued and unpaid interest are included).

Pursuant to the 2020 Restructuring, starting April 1, 2020 the Company will incur an additional 2% per annum interest charge, which is due until the TTM EBITDA ratio is below 3.0 (the "**PIK Interest**"). PIK Interest fees will be paid-in-kind, with the fee being added to the principal of the loan on a monthly basis. The PIK Interest does not create any incremental cash obligations until the loan balance is repaid. A further 2% per annum additional interest is also due effective April 1, 2020 (the "**Penalty Interest**"). The Penalty Interest is to be paid in cash monthly, and is due while the balance of the loan exceeds C\$20 million. There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C\$20 million after July 1, 2021, or if the loan exceeds C\$15 million after January 1, 2022 (the "**Installment Plan**"). The Company further agreed to re-price the 8 million warrants previously issued to the SubLender, subject to shareholder approval. This re-pricing is subject to the Stock Exchange and Shareholder approval which was obtained on August 15, 2022. The new exercise price of HK\$0.58 was calculated based on the average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding August 15, 2022.

As at December 31, 2020, the Company was in compliance with all covenants associated with the subordinated debt. However, there is no genuine possibility that the Company will succeed in compliance with the net debt to TTM EBITDA, working capital and net debt to total proved reserves covenants as at March 31, 2021 and thereafter. Accordingly, the debt is classified as a current liability as at December 31, 2020. On June 30, 2021, the Company received a waiver in respect of this covenant breach.

On June 30, 2021, the Company and SubLender agreed to restructure the loan agreement (the "**2021 Restructuring**"). Under the terms of the 2021 Restructuring, the SubLender waived financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA for the remainder of 2021. Financial covenants in respect of working capital have been eliminated for the remainder of the loan term. Pursuant to the 2021 Restructuring, the SubDebt is subject to the following covenants for 2021 (a) the Company must secure additional capital in the form of new equity for a cumulative amount equal to or greater than C\$8 million on or before September 30, 2021 ("**2021 Funding Covenant**") and; (b) measured at the end of each fiscal quarter maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0 ("**LMR Covenant**"); and (c) net debt to total proved reserves ratio not to exceed 0.75:1.0 as at December 31, 2021; and (d) a C\$2.2 million principal payment on or before August 31, 2021 and a C\$2.2 million principal payment on or before September 30, 2021, (together, the "**2021 Principal Payments**"). The 2021 Principal Payment deadline was subsequently extended to December 31, 2021. Pursuant to the 2021 Restructuring, the PIK Interest and Penalty Interest payments terminate when the loan balance is below C\$20 million, and the loan interest rate reduces to 10% when the loan balance is below C\$15 million.

Additionally, payments or distributions to any related party are subject to consent of the SubLender unless the following conditions are satisfied: the loan balance is equal to or less than C\$15 million; or if the loan balance is less than C\$17.5 million, but greater than C\$15 million, the Debt to Trailing EBITDA Ratio shall be less than 3.5:1.0 at such time, and, in either case, any payment or distribution shall only be permitted where no pending event of default or event of default has occurred (collectively, the “**Insider Repayment Restrictions**”).

On November 30, 2021, the Company paid an aggregate of C\$4.38 million, comprised of the 2021 Principal Payments and all accrued interest as of the same date and the lender confirmed the loan interest would revert to 12% and no further PIK interest would be incurred. As at December 31, 2021 the Company was in compliance with all covenants associated with the SubDebt.

On March 11, 2022, the Company and SubLender agreed to restructure the loan agreement (the “**2022 Restructuring**”). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023. The Company made principal payments of C\$5.0 million before June 20, 2022, satisfying the 2022 principal payment requirements pursuant to the 2022 Restructuring.

As at December 31, 2022, the Company was in compliance with all remaining covenants associated with the SubDebt.

**(b) Shareholder loans**

On December 23, 2019, Jixing advanced C\$0.675 million to the Company (the “**2019 Shareholder Loan**”). The full proceeds of the 2019 Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The 2019 Shareholder Loan had an initial term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion. In calculating the C\$0.6 million fair value of the 2019 Shareholder Loan as at December 31, 2019, the Company applied an effective interest rate of 5.97%, comprised of 4% base plus 1.97% Canadian Dealer Offered Rate (“**CDOR**”). The residual of C\$0.07 million was recorded to Contributed Surplus (refer to Note 16). On April 27, 2021, the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2022, and on December 31, 2021 the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2023. On March 11, 2023, the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2024.

On June 2, 2020, a JX director advanced C\$2 million to the Company (the “**2020 Shareholder Loan**”). The proceeds of the 2020 Shareholder Loan were used for working capital and general corporate purposes. The 2020 Shareholder Loan had an initial term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion. In calculating the C\$1.85 million fair value of the 2020 Shareholder Loan as at June 2, 2020, the Company assumed an effective interest rate of 4% per annum base plus one month CDOR, over the term of the 2020 Shareholder Loan. On this basis the effective rate was 4.28% per annum, comprised of 4% base plus 0.28% CDOR. The residual of C\$0.16 million was recorded to Contributed Surplus (refer to Note 16). On December 31, 2021, the Company and director agreed to extend the term of the 2020 Shareholder Loan to June 2, 2023. On March 11, 2023, the Company and director agreed to extend the term of the 2020 Shareholder Loan to June 2, 2024.

On September 1, 2021, the Company and a JX director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The 2021 Shareholder Loan matured on December



31, 2021, subject to the Insider Repayment Restrictions. The 2021 Shareholder Loan is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company's sole discretion subject to the Insider Repayment Restrictions. As at December 31, 2022, the 2021 Shareholder Loan was substantially repaid, with C\$0.002 million remaining. On January 31, 2023, the remaining balance of the 2021 Shareholder Loan was paid in full.

#### 14 DECOMMISSIONING LIABILITIES

C\$	As at December 31, 2022	As at December 31, 2021
Balance, beginning of period	2,421,363	1,947,832
Liabilities settled	—	(119,002)
Liabilities incurred	—	86,876
Change in estimate	(181,021)	473,197
Accretion expense ( <i>Note 22</i> )	<u>74,503</u>	<u>32,460</u>
<b>Balance, end of period</b>	<b><u>2,314,845</u></b>	<b><u>2,421,363</u></b>
Current	706,300	170,526
Long term	<u>1,608,545</u>	<u>2,250,837</u>

The total future decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2022, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C\$2.6 million (2021: C\$5.0 million) which will be incurred between 2023 and 2078. The majority of these costs will be incurred by 2050. As at December 31, 2022, an average risk free rate of 3.3% (2021: 2.0%) and an inflation rate of 3.3% (2021: 2.0%) were used to calculate the decommissioning obligations.

#### 15 OTHER LIABILITIES

C\$	As at December 31, 2022	As at December 31, 2021
Accrued compensation per Phantom Unit Plan <sup>1</sup>	634,935	506,386
Other payables	<u>20,829</u>	<u>92,464</u>
<b>Total</b>	<b><u>655,764</u></b>	<b><u>598,850</u></b>

(1) In December 2019, the directors agreed that upon ceasing to be a member of the Board the cash redemption value of their Phantom Units would be paid by the Company not less than 366 days after the Director Termination Date. As at December 31, 2022 and 2021, the Phantom Unit Plan amounts owing are held as other liabilities. Refer to Note 20 for additional disclosures in respect of the Phantom Unit Plan.

For the years ended December 31, 2022 and 2021, other payables are primarily comprised of office renovation and rent inducement expenditures.

## 16 SHARE CAPITAL

### (a) Authorized:

The Company is authorized to issue an unlimited number of common shares.

### (b) Issued:

	Common Shares	Amount C\$
At January 1, 2021	361,886,520	213,426,683
Shares issued for cash	36,000,000	4,608,100
Share issuance costs		(64,452)
Allocation to contributed surplus for shares issued above market value	<u>                    </u>	<u>(2,048,000)</u>
<b>At December 31, 2021</b>	<b><u>397,886,520</u></b>	<b><u>215,922,331</u></b>
<b>At January 1, 2022</b>	397,886,520	215,922,331
Shares issued for cash	52,000,000	7,233,985
Share issue costs		(47,843)
Allocation to contributed surplus for shares issued above market value	<u>                    </u>	<u>(3,305,584)</u>
<b>At December 31, 2022</b>	<b><u>449,886,520</u></b>	<b><u>219,802,889</u></b>

On November 18, 2022, the Company entered into a private placement subscription agreement to issue 10 million common shares at a price of HK\$1.11 per common share for gross proceeds of HK\$11.1 million. As of March 30, 2023, the subscription proceeds have not been received and are expected in April 2023. Upon receipt, the funds will be used to pay outstanding accounts payable from the exploration well drilled in Basing during quarter four of 2023.

On May 5, 2022, the Company entered into a subscription agreement with 大連永力石油化工有限公司 (Dalian Yongli Petrochemical Ltd.\*) (“**Dalian**”), pursuant to which the Company has conditionally agreed to allot and issue, and Dalian has conditionally agreed to subscribe for 17 million common shares at a price of HK\$1.00 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. On July 18, 2022 the Company completed the placing issuing 17 million common shares for gross proceeds of HK\$17 million (C\$2.75million). At closing, the market price of the Company’s common shares was HK\$0.52. The HK\$0.48 per common share in excess of market value totaling HK\$8.16 million (C\$1.35 million) was allocated to contributed surplus. Share issuance costs of C\$0.04 were incurred in respect of this placing. Costs of C\$47k were incurred in respect of the closing. The proceeds were applied towards the Company’s subordinated debt and for general operating costs as detailed in the Company’s MD&A for the year ended December 31, 2022 under the heading “*Liquidity and Capital Resources*”.

\* For identification purpose only

On April 29, 2022, the Company completed a private placement issuing 35 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$28 million (C\$4.48 million). At closing, the market price of the Company's common shares was HK\$0.45 per common share. The HK\$0.35 per common share in excess of market value totaling HK\$12.3 million (C\$1.96 million) was allocated to contributed surplus. No costs were incurred in respect of this placing. All proceeds were applied towards the Company's subordinated debt as detailed in the Company's MD&A for the year ended December 31, 2022 under the heading "*Liquidity and Capital Resources*".

On December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$12.8 million (C\$2.05 million). At closing, the market price of the Company's common shares was HK\$0.43 per common share. The HK\$0.37 per common share in excess of market value totaling HK\$6.0 million (C\$0.96 million) was allocated to contributed surplus. No costs were incurred in respect of this placing. Net proceeds were applied towards the Company's subordinated debt as detailed in the Company's MD&A for the year ended December 31, 2022 under the heading "*Liquidity and Capital Resources*".

On June 8, 2021 the Company entered into a subscription agreement with Dalian (as subsequently amended as detailed in the Company's announcement on October 28, 2021) pursuant to which the Company conditionally agreed to allot and issue, and Dalian conditionally agreed to subscribe for 55 million common shares at a minimum price of HK\$0.80 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Independent Shareholders approval was obtained at a special meeting of shareholders on October 15, 2021. On December 13, 2021, the Company completed the first tranche of the Dalian subscription agreement issuing 20 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$16 million (C\$2.56 million). At closing, the market price of the Company's common shares was HK\$0.46 per common share. The HK\$0.34 per common share in excess of market value totaling HK\$6.8 million (C\$1.09 million) was allocated to contributed surplus. C\$65k of costs were incurred in respect of this placing. Net proceeds were applied towards the Company's subordinated debt as detailed in the Company's MD&A for the year ended December 31, 2022 under the heading "*Liquidity and Capital Resources*".

**(c) Warrants:**

On August 13, 2018, the Company issued 8 million warrants to the lender of the subordinated debt facility for total consideration of C\$0.75 million. The warrants have an exercise price of HK\$3.16 per warrant and a term of 5 years. Pursuant to the 2020 Restructuring (see Note 13 of the audited financial statements for the year ended December 31, 2021), the Company agreed to re-price the 8 million share purchase warrants previously issued to the lender. This re-pricing is subject to the Stock Exchange and Shareholder approval which was obtained on August 15, 2022. The new exercise price of HK\$0.58 was calculated based on the average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding August 15, 2022.

As part of the repayment of the SubDebt (note 29), the warrants were forfeited unexercised.

**(d) Stock options and share-based expenses:**

The Company has a stock option plan which was approved and adopted by the shareholders of the Company by ordinary resolution passed on June 8, 2018 (the "**Option Plan**"). The Option Plan is a rolling plan and provides that the number of common shares issuable under the Option Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of

issued and outstanding common shares, on a non-diluted basis, as of the date on which the Option Plan is approved by the shareholders. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is ten years. Options granted vest 1/3 on each of the first, second and third anniversaries from the date of grant.

<i>HK\$ except number of options amounts</i>	<b>Number of Options</b>	<b>Exercise Price</b>
At January 1, 2021 and January 1, 2022	3,780,000	\$0.52
Granted	<u>800,200</u>	<u>\$0.48</u>
<b>At December 31, 2022</b>	<u><u>4,580,200</u></u>	<u><u>\$0.51</u></u>

The average trading price of the Company's common shares was HK\$0.49 per share for the year ended December 31, 2022. The following table summarizes stock options outstanding and exercisable at December 31, 2022:

<b>Exercise Price (HK\$)</b>	<b>Amount Outstanding at Period End</b>	<b>Remaining Contractual Life</b>	<b>Weighted Average Exercise Price (HK\$)</b>	<b>Amount Exercisable at Period End</b>	<b>Weighted Average Exercise Price (HK\$)</b>
\$0.52	3,780,000	2.37 years	\$0.52	2,494,800	\$0.52
<u>\$0.48</u>	<u>800,200</u>	<u>4.9 years</u>	<u>\$0.48</u>	<u>—</u>	<u>—</u>
<u><u>\$0.51</u></u>	<u><u>4,580,200</u></u>	<u><u>2.37 years</u></u>	<u><u>\$0.51</u></u>	<u><u>2,494,800</u></u>	<u><u>\$0.52</u></u>

The fair value of options granted during the year ended December 31, 2022 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	<b>Year ended December 31, 2022</b>
Exercise price per option	HK\$0.48
Risk-free interest rate	4.10%
Estimated hold period prior to exercise	5
Expected volatility	228.0%
Forfeiture rate	—
Dividend per share	—
Fair value per option	HK\$0.48
HK\$:C\$ foreign exchange rate	0.171
Fair value per option	<u><u>C\$0.08</u></u>

(e) **Contributed surplus:**

As at December 31, 2022 and 2021, contributed surplus is comprised of the difference between the deemed fair value and gross value of the Shareholder Loans (refer to Note 13) at the date of initial recognition, share-based expenses incurred during the year and the allocation of shares issued during the year in excess of market value.

**17 REVENUE AND SEGMENT INFORMATION**

**Segment information**

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Chief Executive Officer has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the oil and gas division. The division is principally engaged in oil and gas production, development, exploration and natural gas trading in western Canada for the years ended December 31, 2022 and 2021.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. For the years ended December 31, 2022 and 2021, the revenue of the Company is generated from oil and gas production, natural gas trading and other income comprised of over-riding royalty payments and income generated from sources outside normal operations including rental income and subsidies.

**Revenue summary**

C\$	Year ended December 31,	
	2022	2021
<b>Commodity sales from production</b>		
Natural gas, natural gas liquids and condensate	24,015,824	19,391,638
Crude oil	<u>2,786,281</u>	<u>2,088,646</u>
<b>Total commodity sales from production</b>	<b><u>26,802,105</u></b>	<b><u>21,480,284</u></b>
<b>Trading revenue (loss)</b>		
Natural gas trading revenue	382,804	196,184
Natural gas trading cost	<u>(230,613)</u>	<u>(207,301)</u>
<b>Total trading revenue (loss)</b>	<b><u>152,191</u></b>	<b><u>(11,117)</u></b>
<b>Other income</b>		
<b>Total other income</b>	<b><u>77,414</u></b>	<b><u>48,392</u></b>

The Company sells its products pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly, weekly or daily basis. The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

Trading revenue is realized when the Company purchases natural gas on the open market to meet its forward sale obligations. It is measured at the fair value of the consideration received or receivable, net of the costs incurred to purchase the natural gas.

Other income is comprised of over-riding royalty payments and income generated from sources outside normal operations including rental income and subsidies. Over-riding royalty payments are periodically received from arm's length entities, whereby the Company receives a portion of oil and natural gas revenues generated from wells in which it holds a royalty interest. For the year ended December 31, 2022, other income was primarily comprised of over-riding royalties.

### Information about major customers

During the year ended December 31, 2022 the Company had five active customers (2021: four active customers), of which three customers exceeded 10% of the Company's revenues (2021: one customer). The Company's largest customer accounted for 61% of revenues totaling C\$16.5 million (2021: 80%, C\$17 million), the second largest customer accounted for 19% of revenues totaling C\$5.2 million (2021: Nil).

### Geographical information

The Company's revenue from external customers and non-current assets are all located in Canada.

### Timing of revenue recognition

For the years ended December 31, 2022 and 2021, all of the Company's revenues and commodity sales from production is recognized at a point in time.

## 18 IMPAIRMENT LOSSES AND WRITE-OFFS

C\$	Year ended December 31,	
	2022	2021
E&E write-offs	780,739	277,890
E&E impairment	—	—
PP&E (recovery) impairment	<u>(17,459)</u>	<u>(4,590,560)</u>
<b>Total</b>	<b><u>763,280</u></b>	<b><u>(4,312,670)</u></b>

Impairment is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment. In addition, where a non-financial asset does not generate largely independent cash inflows, the Company is required to perform its test at cash generating unit ("CGU"), which is the smallest identifiable grouping of assets that generates largely independent cash inflows. E&E write-offs consist of land lease expires incurred during the period.

### 2022 PP&E impairment (recovery)

At December 31, 2022, the Company identified indicators of impairment and/or impairment recovery in its PP&E assets in the Basing, Voyager and Dawson CGU's attributable to changes in commodity prices and well performance. The recoverable amount of the Basing, Voyager and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used and the recoverable amount is within the Level 3 hierarchy of IFRS 13. The Company calculated the recoverable amount of the Basing and

Voyager CGU's based on forecasted cash flows from proved plus probable reserves using a 12% and 14% before-tax discount rate, respectively, with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$7.6 million as at December 31, 2022. At December 31, 2022, the carrying amount of the Dawson CGU was lower than its recoverable amount. No impairment recovery was recorded for the Dawson CGU as there were no prior period impairments remaining for Dawson. The carrying amount of the Voyager CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.7 million at December 31, 2022.

The Company utilized the following benchmark prices to determine the forecast prices in the FVLCD calculations:

	<b>As at December 31, 2022</b>	
	<b>Edmonton Oil</b> (C\$/Bbl)	<b>AECO Gas</b> (C\$/mmbtu)
2023	99.27	3.51
2024	93.19	3.68
2025	90.62	3.45
2026	90.84	3.50
2027	92.24	3.55
2028	94.08	3.62
2029	95.96	3.69
2030	97.88	3.77
2031	99.84	3.84
2032	101.35	3.91
2033	103.38	4.00
2034 <sup>(1)</sup>	+2.0%/yr	+2.0%/yr

(1) Approximate percentage change in each year thereafter after to the end of the reserve life.

The following table summarizes the recoverable amount and impairment of the Basing CGU at December 31, 2022 and demonstrates the sensitivity of the estimated recoverable amount with respect to reasonably possible changes in key assumptions inherent in the estimate:

C\$	<b>Recoverable Amount</b>	<b>Impairment (Recovery)</b>	<b>1% Change in Discount Rate</b>	<b>C\$2.50/bbl Change in Oil and NGL Price</b>	<b>C\$0.25/mcf Change in Gas Price</b>
Basing CGU	<u>33,529,184</u>	<u>7,592,607</u>	<u>1,600,000</u>	<u>300,000</u>	<u>4,100,000</u>

The estimated recoverable amount of the Voyager and Dawson CGUs were not materially impacted from these possible changes in key assumptions.

On March 31 and June 30, 2022, the Company identified indicators of impairment recovery of its PP&E assets in the Basing CGU, attributable to changes in commodity prices. The recoverable amount of the Basing CGU was estimated based upon the higher of value in use or fair value less costs of disposal. Fair value less costs of disposal was used, and the recoverable amount is within the Level 3 hierarchy of IFRS 13. The Company calculated the recoverable amount of the Basing CGU based on forecasted cash flows from proved plus probable reserves using a 10% before-tax

discount rate, with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU million was lower than its recoverable amount, and the Company recognized an impairment recovery of C\$8.3 million as at June 30, 2022, of which C\$4.0 million was recognized at March 31, 2022 and the balance at June 30, 2022.

The Company utilized the following benchmark prices to determine the forecast prices in the fair value less costs of disposal calculations:

	<b>Edmonton Oil</b> (C\$/Bbl)	<b>AECO Gas</b> (C\$/mmbtu)
Remainder 2022	131.21	5.81
2023	110.13	4.45
2024	95.00	4.06
2025	91.34	3.73
2026	93.17	3.81
2027	95.03	3.89
2028	96.94	3.98
2029	98.88	4.06
2030	100.86	4.15
2031	102.87	4.24
	+2.0%/yr	+2.0%/yr

The following table summarizes the recoverable amount and impairment recovery of the Basing CGU at June 30, 2022 and demonstrates the sensitivity of the estimated recoverable amount with respect to reasonably possible changes in key assumptions inherent in the estimate:

C\$	<b>Recoverable Amount</b>	<b>Impairment (Recovery)</b>	<b>1% Change in Discount Rate</b>	<b>C\$2.50/bbl Change in Oil and NGL Price</b>	<b>C\$0.25/mcf Change in Gas Price</b>
Basing CGU	<u>52,285,656</u>	<u>(8,288,615)</u>	<u>2,000,000</u>	<u>200,000</u>	<u>4,300,000</u>

#### **2021 PP&E impairment (recovery)**

At December 31, 2021, the Company identified indicators of impairment and/or impairment recovery in its PP&E assets in the Basing, Voyager and Dawson CGU's attributable to changes in commodity prices and well performance. The recoverable amount of the Basing, Voyager and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used and the recoverable amount is within the Level 3 hierarchy of IFRS 13. The Company calculated the recoverable amount of the Basing and Voyager CGU's based on forecasted cash flows from proved plus probable reserves using a 10% and 12% before-tax discount rate, respectively, with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU million was lower than its recoverable amount and the Company recognized an impairment recovery of C\$4.9 million as at December 31, 2021. At December 31, 2021, the carrying amount of the Dawson CGU was lower than its recoverable amount and the Company recognized an impairment recovery of C\$0.15 million. The carrying amount of the Voyager CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.5 million at December 31, 2021.



The Company utilized the following benchmark prices to determine the forecast prices in the FVLCD calculations:

	As at December 31, 2021	
	Edmonton Oil (C\$/Bbl)	AECO Gas (C\$/mmbtu)
2022	86.82	3.31
2023	80.73	2.96
2024	78.01	2.80
2025	79.57	2.86
2026	81.16	2.92
2027	82.78	2.98
2028	84.44	3.04
2029	86.13	3.11
2030	87.85	3.17
2031	89.60	3.24
2032	91.40	3.30
2033	93.23	3.37
2034	95.09	3.44
2035	96.99	3.51
2036	98.93	3.58
2037 <sup>(1)</sup>	+2.0%/yr	+2.0%/yr

(1) Approximate percentage change in each year thereafter after to the end of the reserve life.

The following table summarizes the recoverable amount and impairment recovery of the Basing CGU at December 31, 2021 and demonstrates the sensitivity of the estimated recoverable amount with respect to reasonably possible changes in key assumptions inherent in the estimate:

C\$	Recoverable Amount	Impairment (Recovery)	1% Change in Discount Rate	C\$2.50/bbl Change in Oil and NGL Price	C\$0.25/mcf Change in Gas Price
Basing CGU	<u>40,869,952</u>	<u>(4,910,578)</u>	<u>1,460,000</u>	<u>350,000</u>	<u>4,600,000</u>

The estimated recoverable amount of the Voyager and Dawson CGUs were not materially impacted from these possible changes in key assumptions.

## 19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION

C\$	Year ended December 31,	
	2022	2021
Salaries, wages and other benefits ( <i>net of recoveries</i> )	1,494,318	1,674,062
Retirement benefits contribution	<u>27,046</u>	<u>21,762</u>
<b>Total</b>	<u><b>1,521,364</b></u>	<u><b>1,695,824</b></u>

The Company’s remuneration and bonus policies are determined by the performance of individual employees. The emolument of the executives are recommended by the remuneration committee of the Company, having regard to the Company’s operating results, the executives’ duties and responsibilities within the Company and comparable market statistics.

During the years ended December 31, 2022 and 2021, no salary expenditures qualified for recovery from Jixing pursuant to the Jixing Gas Handling and Voyager Compression Agreements as disclosed in Note 26b.

#### **Phantom Unit Plan for independent non-executive directors**

The Company has in place a phantom unit plan for its independent non-executive directors effective March 10, 2017 and applied retrospectively started from February 26, 2016 (the “**Phantom Unit Plan**”). In order for the eligible directors to receive the phantom units issued under the Phantom Unit Plan (the “**Phantom Units**”), they need to complete a participation form prior to the commencement of each fee period (i.e. twelve-month period commencing January 1 and ending on December 31). Since 2016, all independent non-executive directors agreed to receive 60% of their C\$100,000 annual fee (“**Independent Directors’ Fee**”) in the form of phantom units, and the remainder in cash. For the years ended December 31, 2022 and 2021, the Independent Directors Fee was paid quarterly as C\$10,000 in cash and C\$15,000 under the Phantom Unit Plan (the “**Phantom Fee**”), with each independent non-executive director annually receiving C\$40,000 in cash and C\$60,000 in Phantom Units.

Under the terms of the Phantom Unit Plan, the Company calculates the Phantom Units dividing the Phantom Fee by the weighted average-trading price of the Company’s common shares for the five days preceding each quarter end multiplied by the number of Phantom Units awarded during the quarter. For the years ended December 31, 2022 and 2021, total compensation accrued for each director under the Phantom Unit Plan is based on the total number of units awarded in the preceding quarters multiplied by the weighted average-trading price of the Company’s common shares for the five days preceding the period end.

During the year ended December 31, 2022, the Company incurred C\$0.13 million of directors’ compensation per the Phantom Unit Plan (2021: C\$0.33 million). As at December 31, 2022, the total accrued compensation for independent non-executive directors per the Phantom Unit Plan was C\$0.63 million (2021: C\$0.59 million).

In December 2019, the directors agreed that upon ceasing to be a member of the Board (the “**Director Termination Date**”), the cash redemption value of their Phantom Units is calculated as the number of units redeemed multiplied by the trading price of the Company’s shares at the Director Termination Date. The directors agreed that this value would be paid by the Company not less than 366 days after the Director Termination Date. During the year ended December 31, 2022, the Company paid C\$.01 million to a former director pursuant to the Phantom Unit Plan.

#### **Auditors’ remuneration**

Auditors’ remuneration incurred during the years ended December 31, 2022 and 2021 is as follows:

C\$	Year ended December 31,	
	2022	2021
Audit services	415,700	382,200
Non-audit services	<u>13,076</u>	<u>—</u>

## 20 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

### Year Ended December 31, 2022:

C\$	Directors' Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total Emoluments
<i>Executive directors</i>						
Pingzai Wang <sup>1</sup>	—	336,000	—	—	20,000	356,000
Yongtan Liu <sup>2</sup>	—	—	—	—	—	—
<i>Independent non-executive directors</i>						
Richard Orman <sup>3</sup>	40,000	—	—	—	38,821	78,822
Larry Smith <sup>3</sup>	40,000	—	—	—	50,906	90,906
Peter Robertson <sup>3</sup>	40,000	—	—	—	38,821	78,822
<b>Total</b>	<u>120,000</u>	<u>336,000</u>	<u>—</u>	<u>—</u>	<u>148,548</u>	<u>604,548</u>

- (1) Pingzai Wang was appointed Chief Executive Officer of the Company on March 4, 2020, and appointed as executive director of the Company on July 1, 2020. The amounts disclosed above for Mr. Wang are total of all emoluments he received during the year ended December 31, 2022.
- (2) Yongtan Liu does not receive any emoluments from the Company for his services. Refer to Note 26 for additional disclosures in respect of transactions with Mr. Liu and his affiliated entities.
- (3) Each of the independent non-executive directors' compensation is C\$0.1 million per year, C\$0.04 million paid in cash quarterly (C\$10,000 per quarter), and C\$0.06 million paid in Phantom Units quarterly (C\$15,000 per quarter) for total gross compensation of C\$0.3 million for the three independent non-executive directors. The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2022, the Company incurred C\$0.13 million of directors' compensation per the Phantom Unit Plan as a result of the increase in the trading price of the Company's common shares. After giving effect to this expense, the Company incurred total independent non-executive directors' compensation expense of C\$0.25 million for the year ended December 31, 2022.

For the year ended December 31, 2022, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) or any of the five highest paid individuals as set out in Note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2022.

**Year Ended December 31, 2021:**

C\$	Directors' Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total Emoluments
<i>Executive directors</i>						
Pingzai Wang <sup>1</sup>	—	330,000	—	—	46,667	376,667
Yongtan Liu <sup>2</sup>	—	—	—	—	—	—
<i>Independent non-executive directors</i>						
Richard Orman <sup>3</sup>	130,242	—	—	—	—	130,242
Larry Smith <sup>3</sup>	73,274	—	—	—	—	73,274
Peter Robertson <sup>3</sup>	130,242	—	—	—	—	130,242
<b>Total</b>	<b>333,758</b>	<b>330,000</b>	<b>—</b>	<b>—</b>	<b>46,667</b>	<b>710,425</b>

- (1) Pingzai Wang was appointed Chief Executive Officer of the Company on March 4, 2020, and appointed as executive director of the Company on July 1, 2020. The amounts disclosed above for Mr. Wang are total of all emoluments he received during the year ended December 31, 2021.
- (2) Yongtan Liu does not receive any emoluments from the Company for his services. Refer to Note 26 for additional disclosures in respect of transactions with Mr. Liu and his affiliated entities.
- (3) Each of the independent non-executive directors' compensation is C\$0.1 million per year, C\$0.04 million paid in cash quarterly (C\$10,000 per quarter), and C\$0.06 million paid in Phantom Units quarterly (C\$15,000 per quarter) for total gross compensation of C\$0.3 million for the three independent non-executive directors. The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2021, the Company incurred C\$0.33 million of directors' compensation per the Phantom Unit Plan as a result of the increase in the trading price of the Company's common shares. After giving effect to this recovery, the Company incurred total independent non-executive directors' compensation expense of C\$0.45 million for the year ended December 31, 2021.
- (4) Larry Smith was appointed independent non-executive director of the Company on December 4, 2020.

For the year ended December 31, 2021, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) or any of the five highest paid individuals as set out in Note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2021.

## 21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, Pingzai Wang is a director of the Company as at December 31, 2022 and 2021. His emoluments are disclosed in Note 20, the aggregate of the emoluments in respect of the other four individuals for each respective year is as follows:

C\$	Year ended December 31,	
	2022	2021
Salaries and other emoluments	937,330	696,780
Share-based compensation	50,400	70,933
Bonus	<u>32,836</u>	<u>36,623</u>
<b>Total</b>	<b><u>1,020,566</u></b>	<b><u>804,336</u></b>

The emoluments of the above four individuals with the highest annual emoluments are within the following bands:

<i>Hong Kong dollars</i>	Year ended December 31,	
	2022	2021
Nil–1,000,000	1	2
1,000,001–1,500,000	—	—
1,500,001–2,000,000	2	1
2,000,001–2,500,000	1	1
2,500,001–3,000,000	—	—
3,500,001–4,000,000	—	—
4,500,001–5,000,000	—	—

## 22 FINANCE EXPENSES

C\$	Year ended December 31,	
	2022	2021
Interest expense and financing costs:		
Subordinated debt (Note 13)	2,060,794	3,887,522
Right of use assets and leases (Note 11)	289,854	295,333
Commitment charges	78,612	128,774
Capital payables (Note 12)	131,430	191,325
Other financing costs and bank charges	7,258	28,397
Accretion expenses:	—	—
Decommissioning liabilities (Note 14)	74,503	32,460
Shareholder loans (Note 13)	99,005	(26,283)
Amortization of debt issuance costs	515,777	516,457
Loss on foreign exchange	<u>(75)</u>	<u>607</u>
<b>Total finance expenses</b>	<b><u>3,257,158</u></b>	<b><u>5,054,592</u></b>

(1) For the years ended December 31, 2022 and 2021, commitment charges are primarily comprised of costs associated with the Company's PSG facility (Note 27).

## 23 INCOME TAXES

The provision for income taxes differs from the result that would have been obtained by applying the combined federal and provincial tax rates to the loss before income taxes. The difference results from the following items:

C\$	Year ended December 31,	
	2022	2021
Loss before income taxes	(3,579,321)	(4,808,815)
Combined Federal and Provincial tax rate	<u>23.0%</u>	<u>23.0%</u>
Expected tax benefit	(823,244)	(1,106,027)
Increase in taxes resulting from:		
Non deductible expenses	78,236	27,305
Change in unrecognized deferred tax assets	745,007	(24,873)
Change in enacted tax rate	<u>—</u>	<u>1,103,595</u>
<b>Income tax expense</b>	<u><u>—</u></u>	<u><u>—</u></u>

During the year ended December 31, 2022, the blended statutory tax rate was 23% (2021: 23%). In the second quarter of 2019, the Alberta corporate income tax rate was reduced from 12 percent to eight percent over a four year period. The rate was reduced from 12% to 11% effective July 1, 2019 and will be further reduced by 1% on January 1 for each of the next three years until it reaches 8% on January 1, 2022.

Deferred tax assets have not been recognized for the following deductible temporary differences:

C\$	Year ended December 31,	
	2022	2021
PP&E and E&E assets	87,576,361	81,728,141
Decommissioning obligations	2,314,845	2,421,363
Non-capital losses and other	37,939,556	38,988,671
Lease liabilities	592,121	2,743,606
Debt and other	1,132,759	—
Share issue costs	<u>314,924</u>	<u>746,791</u>
<b>Total</b>	<u><u>129,870,564</u></u>	<u><u>126,628,572</u></u>

At December 31, 2022, the Company has approximately C\$127 million of tax deductions, which include loss carry forwards of approximately C\$38 million that will begin to expire in 2037.

## 24 LOSS PER SHARE

<i>C\$ except share amounts</i>	Year ended December 31,	
	2022	2021
(Loss) and comprehensive (loss)	(3,579,321)	(4,808,815)
Weighted average number of common shares	<u>429,349,534</u>	<u>364,100,219</u>
<b>Income (loss) per share — basic and diluted</b>	<b><u>(0.01)</u></b>	<b><u>(0.01)</u></b>

There were 4.58 million (2021: 3.78 million) options and 8 million warrants excluded from the weighted-average share calculations for the years ended December 31, 2022 and 2021 because they were anti-dilutive.

## 25 DIVIDEND

The Board did not approve the payment of a dividend for the years ended December 31, 2022 and 2021.

## 26 RELATED PARTY TRANSACTIONS

### (a) Transactions with key management personnel

Key management compensation for the year ended December 31, 2022 totaled C\$1.02 million (2021: C\$1.02 million).

### (b) Transactions with directors

#### *Directors' Fees and Phantom Unit Plan*

Each of the independent non-executive directors' compensation is C\$0.1 million per year, C\$0.04 million paid in cash quarterly (C\$10,000 per quarter), and C\$0.06 million paid in Phantom Units quarterly (C\$15,000 per quarter) for total gross compensation of C\$0.3 million for the three independent non-executive directors. The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2022, the Company incurred C\$0.13 million of directors' compensation per the Phantom Unit Plan as a result of the decrease in the trading price of the Company's common shares. After giving effect to this cost, the Company incurred total independent non-executive directors' compensation expense of C\$0.13 million for the year ended December 31, 2022 (2021: C\$0.5 million). As at December 31, 2022, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C\$0.6 million (2021 — C\$0.5 million).

#### *Jixing Gas Handling and Voyager Compression Agreements*

On May 9, 2019, the Company entered into a gas handling agreement with Jixing Energy (Canada) Ltd. ("Jixing") (collectively the "**Jixing Gas Handling Agreement**"). Jixing is a private Canadian company controlled by Yongtan Liu, who was appointed as director and Chairman of the Company on December 18, 2019. Under the terms of the Jixing Gas Handling Agreement, the Company will transport its gas from the Voyager area through Jixing's gas gathering system. The agreement has a term of May 9, 2019 to December 31, 2044, however the Company's obligations commenced with the commissioning of production operations at Voyager on June 29, 2020. For the year ended December 31, 2022, the Company incurred total costs of C\$3.9 million in respect of this agreement (2021: C\$3.4 million).

On November 1, 2019, the Company and Jixing entered into a gas compression agreement (the “**Jixing Voyager Compression Agreement**”). The agreement has a term of November 1, 2019 to December 31, 2026, however the Company’s obligations commenced with the commissioning of production operations at Voyager on June 29, 2020. For the year ended December 31, 2022, the Company incurred total costs of C\$2.3 million in respect of this agreement (2021: C\$2.3 million).

As at December 31, 2022, the Company has a total balance owing to Jixing of C\$2.6 million (2021: C\$4.89 million). Pursuant to the 2022 Restructuring of the Company’s debt (see Note 13), any payment made to a related party is subject to the Insider Payment Restrictions and prohibited unless the loan balance is equal to or less than C\$15 million; or if the loan balance is less than C\$17.5 million, but greater than C\$15 million, the Debt to Trailing EBITDA Ratio requirement from the 2021 Restructuring was waived, and the Company repaid C\$3 million during the year.

Under the terms of the Jixing Gas Handling and Jixing Voyager Compression Agreements the Company will pay the following tariffs to Jixing annually from 2022 to 2044:

C\$	Monthly Gas Handling	Monthly Compression	Total Monthly	Total Annual
	405,150	146,000	551,150	6,613,800
2024	501,875	146,000	647,875	7,774,500
2025	618,219	146,000	764,219	9,170,625
2026	765,740	146,000	911,740	10,940,875
2027–2044	433,438	—	433,438	5,201,250

Pursuant to the Jixing Gas Handling and Voyager Compression Agreements, past costs incurred by the Company in respect of the Voyager gas gathering system and pipeline projects will be repaid by Jixing, along with annual charges of overhead and administrative costs incurred by the Company on behalf of Jixing. For the years ended December 31, 2022 and 2021, the Company has not recovered administrative costs per the contracts.

Prior to December 18, 2019, Jixing was not a related party to the Company, the terms of the agreements were determined through arm’s length negotiations, giving reference to the prevailing market rates quoted on normal commercial terms by providers of similar services in the same or nearby geographical regions.

### ***Shareholder Loans***

On December 23, 2019, Jixing advanced C\$0.675 million to the Company (the “**2019 Shareholder Loan**”). The full proceeds of the 2019 Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The 2019 Shareholder Loan had an initial term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion. In calculating the C\$0.6 million fair value of the 2019 Shareholder Loan as at December 31, 2019, the Company applied an effective interest rate of 5.97%, comprised of 4% base plus 1.97% Canadian Dealer Offered Rate (“**CDOR**”). The residual of C\$0.07 million was recorded to Contributed Surplus (refer to Note 16). On April 27, 2021, the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2022, and on December 31, 2021 the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2023. On March 11, 2023, the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 31, 2025.



On June 2, 2020, a JX director advanced C\$2 million to the Company (the “**2020 Shareholder Loan**”). The proceeds of the 2020 Shareholder Loan were used for working capital and general corporate purposes. The 2020 Shareholder Loan had an initial term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion. In calculating the C\$1.85 million fair value of the 2020 Shareholder Loan as at June 2, 2020, the Company assumed an effective interest rate of 4% per annum base plus one month CDOR, over the term of the 2020 Shareholder Loan. On this basis the effective rate was 4.28% per annum, comprised of 4% base plus 0.28% CDOR. The residual of C\$0.16 million was recorded to Contributed Surplus (refer to Note 16). On December 31, 2021, the Company and director agreed to extend the term of the 2020 Shareholder Loan to June 2, 2023. On March 11, 2023, the Company and director agreed to extend the term of the 2020 Shareholder Loan to December 31, 2025.

On September 1, 2021, the Company and a JX director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The 2021 Shareholder Loan matured on December 31, 2021, subject to the Insider Repayment Restrictions. The 2021 Shareholder Loan is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion subject to the Insider Repayment Restrictions. As at December 31, 2022, the 2021 Shareholder Loan was substantially repaid, with C\$0.002 million remaining. On January 31, 2023, the remaining balance of the 2021 Shareholder Loan was paid in full.

## 27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Overview

The Company has exposure to credit risk, liquidity and market risk from its use of financial instruments. This note presents information about the Company’s exposure to each of the risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital.

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.

#### (a) *Credit risk*

The Company’s credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

Credit risk on trade and other receivables 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 purchasers of the Company’s crude oil and natural gas and joint venture partners. The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. As at December 31, 2022, the Company’s accounts receivables consisted of C\$2.6 million (2021: C\$2.1 million) due from purchasers of the Company’s crude oil and natural gas and C\$2k (2021: C\$0.3 million) of other receivables.

Receivables from purchasers of the Company’s crude oil and natural gas when outstanding are normally collected on the 25th day of the month following production. The carrying amount of accounts receivable and cash balances represents the maximum credit exposure. In determining whether amounts past due are collectible, the Company will assess the nature of the past due amounts as well as the credit worthiness and past payment history of the counterparty. The Company has determined that no allowance for impairment was necessary as at

December 31, 2022. The Company has also not written off any receivables during the years ended December 31, 2022 and 2021 as trade accounts receivables were collected in full. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2022 and 2021, all of the trade receivables were less than 30 days old.

(b) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company will attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month. The Company prepares annual budgets and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due (see Note 3).

The current challenging economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate profits in the future. The following are the contractual maturities of financial liabilities as at December 31, 2022:

C\$	Carrying amount	Total	1 year or less	1–2 years	2–5 years	5+ years
Accounts payable and acc. liabilities	20,882,800	20,882,800	20,882,800	—	—	—
Other liabilities	655,764	655,764	—	655,764	—	—
Lease liabilities	1,730,474	1,981,753	1,027,040	759,540	195,173	—
Shareholder loans <sup>1</sup>	2,623,699	2,675,000	2,675,000	—	—	—
Subordinated debt <sup>2</sup>	<u>15,513,731</u>	<u>15,750,000</u>	<u>15,750,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<u><u>41,406,469</u></u>	<u><u>41,863,519</u></u>	<u><u>37,659,840</u></u>	<u><u>4,090,304</u></u>	<u><u>113,373</u></u>	<u><u>—</u></u>

(1) Gross value of shareholder loans as per Note 13.

(2) Subordinated debt plus accrued and unpaid interest as per Note 13 which matures on May 15, 2023. See subsequent event note 29 for details of repayment.

The following are the contractual maturities of financial liabilities as at December 31, 2021:

C\$	Carrying amount	Total	1 year or less	1–2 years	2–5 years	5+ years
Accounts payable and acc. liabilities	17,144,921	17,144,921	17,144,921	—	—	—
Other liabilities	598,850	598,850	—	598,850	—	—
Lease liabilities	2,448,273	2,901,726	1,039,105	1,013,041	849,580	—
Shareholder loans <sup>1</sup>	5,507,007	5,675,000	3,000,000	2,675,000	—	—
Subordinated debt <sup>2</sup>	<u>19,847,954</u>	<u>20,550,000</u>	<u>5,000,000</u>	<u>15,550,000</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<u>45,547,005</u>	<u>46,870,497</u>	<u>26,184,026</u>	<u>19,836,891</u>	<u>849,580</u>	<u>—</u>

(1) Gross value of shareholder loan as per Note 13.

(2) Subordinated debt plus accrued and unpaid interest as per Note 13 which matures on May 15, 2023.

(c) **Market risk**

Market risk is the risk that changes in market metrics, such as commodity prices, foreign exchange rates and interest rates that will affect the Company's valuation of financial instruments, the debt levels of the Company, as well as its profit and cash flow from operations. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

*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 crude 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. The Company has taken advantage of the low price environment and purchased from the market to fulfill the committed forward contracts for natural gas, saving operating costs and arbitraging from the price difference. The Company did not enter into any financial derivatives for the years ended December 31, 2022 and 2021.

*Interest rate risk*

As at December 31, 2022, the Company's debts are comprised of lease liabilities, shareholder's loans, SubDebt and amounts owing under the Contract (refer to Note 12), which all carry a fixed interest rate. As at December 31, 2022 and 2021, the Company has no variable rate borrowings. As such, a one percent change in prevailing interest rates would not change the Company's net income (loss) for the years ended December 31, 2022 and 2021.

### *Foreign currency risk*

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian versus United States or Hong Kong vendors as well as timing of transactions. The Company recognizes a foreign exchange gain/loss based on the revaluation of monetary items held in United States Dollars (“USD”) or Hong Kong Dollars (“HKD”) and the value changes with the fluctuation in the USD/CAD and HKD/CAD exchange rates. As at December 31, 2022 and 2021, the Company’s overall net exposure to foreign exchange risk is as follows:

<i>Expressed in C\$</i>	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
HKD Cash and cash equivalents	<b>1,493</b>	46,957
HKD Trade and other receivables	—	—
HKD Trade and other payables	<b>(403,806)</b>	(375,155)
USD Trade and other payables	<b>(28,788)</b>	—
<b>Overall net exposure</b>	<b><u>(431,101)</u></b>	<b><u>(328,198)</u></b>

Changes in the HKD/CAD foreign exchange rate of less than 10% would not materially change the Company’s financial statements for the years ended December 31, 2022 and 2021.

#### **(d) *Capital management***

The Company’s general policy is to maintain an appropriate capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Company’s objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows the Company to favor the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. The Company considers its capital structure to include shareholders’ equity, shareholder loans, subordinated debt, other liabilities and working capital. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt.

The Company has not paid nor declared any dividends since its inception.

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company.

The following represents the capital structure of the Company:

C\$	As at December 31, 2022	As at December 31, 2021
Long term debt <i>(excluding current portion as per Note 13)</i>	—	17,354,961
Other liabilities	655,764	598,850
Long term lease liabilities <i>(current portion included in net working capital deficit)</i>	861,879	1,635,918
Net working capital deficit	<u>36,967,968</u>	<u>22,739,899</u>
Net debt	38,485,611	42,329,628
Shareholders' equity	<u>8,677,550</u>	<u>5,013,809</u>
<b>Total</b>	<u><b>47,163,161</b></u>	<u><b>47,343,437</b></u>

(e) *Performance services guarantee (“PSG”) facility*

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada (“EDC”) totaling C\$4.4 million. On July 30, 2020 the aggregate PSG was reduced to C\$1.85 million. On October 17, 2022, the aggregate PSG was reduced to C\$1.55 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit (“L/C”) on behalf of the Company. Previously, these L/C’s were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C’s subject to subsequent approval by the EDC. As at December 31, 2022, the Company has PSG coverage for the following L/C’s:

Amount	Expiry
C\$1,100,000	March 16, 2023
C\$408,158	December 30, 2023

For the years ended December 31, 2022 and 2021, the Company incurred fees totaling C\$0.1 million in relation to the PSG facility.

The PSG facility has a 12 month term and must be renewed annually. The current term expires on September 30, 2023. If the facility is not approved for renewal, the PSG coverage will terminate at the expiry of the existing L/C’s and the Company will seek alternative insurance arrangements to guarantee the L/C’s or cash collateralize them.

On March 16, 2023, the L/C for C\$1,100,000 was reduced to C\$710,000 in accordance with the contract.

## 28 COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. The following table outlines the Company's commitments to third parties as at December 31, 2022:

C\$	Total	Less than 1 year	1–2 years	2–5 years	After 5 years
Transportation commitment	13,671,635	3,492,055	3,492,055	6,687,525	—
Jixing agreements <sup>2</sup>	122,921,050	6,613,800	7,774,500	25,312,750	83,220,000
PSG facility <sup>1</sup>	<u>1,508,158</u>	<u>1,508,158</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<b><u>138,100,843</u></b>	<b><u>11,614,013</u></b>	<b><u>11,266,555</u></b>	<b><u>32,000,276</u></b>	<b><u>83,220,000</u></b>

(1) The PSG facility commitment will only be due if the facility is not renewed and the L/C's are cash collateralized by the Company (see Note 27).

(2) The transportation commitment reflects the transfer of 47 MMcf/d effective April 1, 2022 as detailed below.

### Transportation Commitment:

The Company entered into a take or pay firm service transportation agreement with committed transportation volumes as below:

Description	Volume (MMcf/d)	Effective date	Expiring date	Duration
JX FT-R with NGTL	61.45	2018-12-01	2026-11-30	5 years

The firm service transportation agreements cover the period from November 1, 2013 to November 30, 2026 (the firm service fee varies and is subject to review by the counter-party on an annual basis). The amounts presented in the Commitments table above for the transportation service commitment fee is based on fixed transportation capacity as per these agreements and management's best estimate of future transportation charges. On April 1, 2022 the Company transferred 47 MMcf/d of its FT-R obligations to another issuer.

## 29 SUBSEQUENT EVENT

### SubDebt Repayment and New Long-term Debt

The Company obtained new long-term debt through a combination of a shareholder loan from Jixing for USD\$8 million, and USD\$3.5 million from CIMC Leasing USA, Inc. (the "CIMC Loan"). As a condition of the shareholder loan and CIMC Loan, on March 27, 2023 the Company repaid the outstanding SubDebt balance of C\$15.75 million plus interest of C\$115,958.91.

The shareholder loan will have a term of 48 months and bare interest of 9.25% per annum. The Company will be required to make monthly interest and principal payments of USD\$200,031.36.

The CIMC Loan will have a term of 48 months, bare interest of 9.25% per annum and is secured by the fixed assets owned by the Company, excluding its Oil and Gas assets, and a personal guarantee from Mr. Yongtan Liu, the Company's Chairman. The Company will be required to make monthly interest and principal payments of USD\$87,513.72.

The CIMC Loan will be senior to all other debt and equity payments, including the Jixing Gas Handling and Jixing Voyager Compression Agreements.

Mr. Liu and/or interests under his control, have loans with CIMC Capital (China), the parent company of CIMC Leasing USA, Inc. In the event that there is a default with the existing loans with CIMC Capital (China), it will trigger a default of the CIMC Loan and shareholder loan from Jixing, and the outstanding balances will immediately become due.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") of JX Energy Ltd., formerly Persta Resources Inc. ("**JX Energy**" or the "**Company**") should be read in conjunction with the Company's audited financial statements and notes thereto for the years ended December 31, 2022 and 2021 (the "**Financial Statements**"). All amounts and tabular amounts in this MD&A are stated in thousands of Canadian dollars ("**C\$ 000**") unless indicated otherwise. This MD&A is dated March 30, 2023.

## FORWARD LOOKING INFORMATION

Certain statements in this MD&A are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and the Company hereby cautions investors about important factors that could cause the Company's actual results to differ materially from those projected in a forward-looking statement. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this MD&A), uncertainties and other factors some of which are beyond the Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, the Company strongly cautions investors against placing undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

All forward-looking statements in this MD&A are expressly qualified by reference to this cautionary statement.

## NON-IFRS FINANCIAL MEASURES

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("**GAAP**") as issued by the International Accounting Standards Board ("**IASB**").



This MD&A also includes references to financial measures commonly used in the oil and natural gas industry. These financial measures are not defined by IFRS as issued by IASB and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. See “Non-IFRS Financial Measures” of this MD&A for information regarding the following non-IFRS financial measures used in this MD&A: “operating netback” and “adjusted EBITDA”.

## **FUTURE PROSPECTS**

The Company acquired Petroleum and Natural Gas Licenses for Basing, Voyager and Kaydee in the Alberta Foothills and Dawson near Peace River in northern Alberta between 2006 and 2018. Approximately 90% of the Company’s revenue is generated from the Basing area. Voyager is geologically analogous and located approximately 30 kilometers (“**km**”) from Basing.

During 2022, commodity prices have surged as the global economy started to recover from the COVID-19 pandemic and the war in the Ukraine. The price for natural gas in Western Canadian recently achieved 10-year highs, and is forecast to stabilize through 2023. As the spot price for Western Canadian gas changes daily, there is no guarantee the Company will sell its gas in the future for currently forecast prices. To capitalize on the strong price environment, the Company is evaluating additional targets which it would look to commence drilling on during 2023 and 2024, subject to availability of capital.

During 2022, the Company has raised a total of C\$7.23 million through two common share equity private placements. C\$5 million of net proceeds have been applied to reduce the Company’s loan from C\$20 million to C\$15 million, the remaining net proceeds have been applied towards the Company’s general working capital. In November 2022, the Company entered into a private placement subscription agreement to issue 10 million common shares at a price of HK\$1.11 per common share. As of March 30, 2023, the share proceeds have not been received.

## SELECTED ANNUAL INFORMATION

Average Daily Production	2022	Year ended December 31,			
		2021	2020	2019	2018
Natural gas (mcf/d)	<b>10,042</b>	12,416	13,341	10,465	12,521
Crude oil (bbls/d)	<b>66</b>	77	45	80	75
NGLs and condensate (bbls/d)	<b>70</b>	<u>96</u>	<u>94</u>	<u>83</u>	<u>91</u>
Total production (boe/d)	<b>1,810</b>	<u>2,243</u>	<u>2,363</u>	<u>1,907</u>	<u>2,208</u>
<b>Average Daily Trading</b>					
Natural gas (boe/d)	<b>37</b>	<u>25</u>	<u>44</u>	<u>226</u>	<u>190</u>
<b>Total Sales Volume (boe/d)</b>	<b>1,847</b>	<u>2,268</u>	<u>2,406</u>	<u>2,133</u>	<u>2,398</u>

Financial <i>C\$ 000s except share amounts</i>	2022	Year ended December 31,			
		2021	2020	2019	2018
Production revenue	<b>26,802</b>	21,480	13,269	13,627	15,364
Net trading revenue	<b>152</b>	(11)	9	630	661
Royalties	<b>(4,669)</b>	(2,663)	(751)	(2,447)	(1,164)
Operating costs	<b>(12,825)</b>	(14,383)	(10,874)	(7,593)	(5,353)
Operating netback <sup>1</sup>	<b>9,461</b>	4,423	1,652	4,217	9,509
Net income (loss)	<b>(3,579)</b>	(4,809)	(21,851)	(50,466)	(7,279)
Net working capital <sup>2</sup>	<b>(36,968)</b>	(22,740)	(29,938)	(26,646)	(1,646)
Total assets	<b>52,399</b>	52,982	44,667	59,064	103,582
Long term debt <sup>2</sup>	<b>—</b>	(17,355)	(1,886)	(602)	(23,064)
Capital expenditures <sup>3</sup>	<b>6,173</b>	8,623	1,932	1,315	5,415
Income (loss) per share (basic and diluted)	<b>(0.01)</b>	<u>(0.01)</u>	<u>(0.07)</u>	<u>(0.17)</u>	<u>(0.03)</u>

(1) Operating netback is defined as revenue less royalties, trading cost and operating costs. Operating netback is a non-IFRS financial measure. See “Non-IFRS Financial Measures” for further information.

(2) Net working capital consists of current assets less current liabilities. As at December 31, 2022, net working capital includes C\$15.75 million of long term debt which was repaid on March 27, 2023, and C\$2.6 million of shareholder loans originally due for repayment in 2023 which were amended to be due for repayment in 2024 subsequent to year end. As at December 31, 2021, net working capital includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022.

(3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

## 5 YEAR ANNUAL SUMMARY

Over the past 5 years, the Company's total production has dropped reflecting natural declines, as the Company elected to defer new well drilling following the collapse of the market price for natural gas in western Canada in 2017.

In 2021 and 2022 commodity prices have strengthened as reflected in the Company's 2021 and 2022 production revenue achieving 5 year highs, despite lower production compared to previous years. In 2019 operating costs increased as the Company's gas transport obligations commenced in the fourth quarter of 2018. These obligations are fixed and provide JX with transport capacity of up to 110 MMcf/d. Effective April 1, 2022, the Company transferred 47 MMcf/d of its FT-R obligations to another issuer. In 2020 operating costs increased with the start of production at Voyager and commencement of the Jixing Gas Handling and Voyager Compression agreements (refer to Note 26 of the Financial Statements). In 2022, the operating costs decreased due to the reduction in production, which is offset by the increase in the Jixing Gas Handling and Voyager Compression agreements.

The Company's 2022 net loss was lower than 2021 and significantly lower than 2020 and 2019, reflecting higher revenues and partial recoveries of the impairment losses the Company booked in 2020 and 2019. These impairment losses were non-cash charges resulting from assessments which indicated the carrying costs of the Company's assets exceed their estimated future recoverable amounts, which have been negatively impacted by the decline in commodity prices over the past three years. In 2022 the value of the Company's Basing assets increased commensurate with the addition of the exploration well drilled in Q4 2022 allowing a partial recovery of the previously booked losses.

In 2022 the Company's capital expenditures are primarily comprised of costs associated with the drilling of a new well at its Basing area and a workover in the Voyager area.

## SELECTED QUARTERLY INFORMATION

<b>Daily Average Production</b>	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Natural gas (mcf/d)	9,684	10,500	10,371	11,470	11,800	11,344	12,607	13,518
Crude oil (bbls/d)	74	55	56	65	80	81	76	65
NGLs and condensate (bbls/d)	<u>64</u>	<u>74</u>	<u>71</u>	<u>77</u>	<u>90</u>	<u>99</u>	<u>107</u>	<u>90</u>
Total production (boe/d)	1,751	1,880	1,855	2,054	2,137	2,071	2,284	2,408
<b>Daily Average Trading</b>								
Natural gas (boe/d)	<u>21</u>	<u>8</u>	<u>8</u>	<u>31</u>	<u>22</u>	<u>34</u>	<u>33</u>	<u>10</u>
<b>Daily Average Sales (boe/d)</b>	<u><u>1,772</u></u>	<u><u>1,887</u></u>	<u><u>1,863</u></u>	<u><u>2,085</u></u>	<u><u>2,159</u></u>	<u><u>2,105</u></u>	<u><u>2,317</u></u>	<u><u>2,418</u></u>
<b>Financial</b>								
<i>C\$ 000s except share amounts</i>	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Production revenue	6,557	8,927	8,893	6,364	6,566	5,051	4,909	4,954
Net trading revenue (loss)	4	161	1	(12)	(12)	(1)	—	2
Royalties	(1,236)	(1,824)	(1,224)	(1,127)	(1,193)	(532)	(75)	(863)
Operating costs	(3,094)	(5,151)	(3,323)	(3,279)	(3,409)	(3,607)	(3,742)	(3,624)
Operating netback <sup>1</sup>	2,231	2,113	4,347	1,946	1,951	912	1,091	469
Net income (loss)	(10,312)	(2,015)	5,358	2,999	(1,549)	1,507	(1,925)	(2,842)
Net working capital <sup>2</sup>	(36,968)	(33,595)	(27,501)	(17,942)	(22,740)	(12,572)	(8,153)	(31,512)
Total assets	52,399	60,983	58,177	57,763	52,982	47,898	42,205	43,425
Capital expenditures <sup>3</sup>	6,073	1,088	(93)	193	5,489	2,918	126	91
Income (loss) per share (basic & diluted)	<u><u>(0.02)</u></u>	<u><u>(0.00)</u></u>	<u><u>0.01</u></u>	<u><u>0.01</u></u>	<u><u>(0.00)</u></u>	<u><u>0.00</u></u>	<u><u>(0.01)</u></u>	<u><u>(0.01)</u></u>

- (1) Operating netback is defined as revenue less royalties, trading cost and operating costs. Operating netback is a non-IFRS financial measure. See “Non-IFRS Financial Measures” for further information.
- (2) Net working capital consists of current assets less current liabilities. As at March 31, 2021, net working capital includes C\$24 million of long term debt which had been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility. As at December 31, 2021, net working capital includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022. As at December 31, 2022, net working capital includes C\$15 million of long term debt which was repaid on March 27, 2023.
- (3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

## **Selected Quarterly Information Summary**

The Company's total production is impacted by seasonal fluctuations experienced in western Canada. During the Canadian winter (October — March), demand for gas is highest as it is used for heating and power generation. The market price for natural gas is cyclical and follows demand, with prices generally strongest in the winter, and weakest in summer. Historically, the Company's revenues have been strongest during the first and fourth quarters, and weakest in the second and third quarters, reflecting the demand cycle.

Commodity prices strengthened throughout 2021 and the first half of 2022, reflecting the increased quarterly revenue realized from declining production experienced between Q421 and Q222. In Q322 the Company shut in select wells for periods of time due to a combination of market price and pipeline maintenance. In Q422, the commodity prices increased reflecting the seasonal demand typically seen in winter.

The Company's higher net loss experienced in the fourth quarter of 2020 is attributable to impairment losses and write-offs recognized during the period. These impairment losses are non-cash charges resulting from assessments which indicated the carrying costs of the Company's assets exceed their estimated future recoverable amounts. In 2021 and 2022 the market value of the Company's assets increased commensurate with the increase in commodity prices, allowing a partial recovery of the previously booked impairment losses in the third quarter of 2021 and first and second quarters of 2022. In Q4 2022 the commodity price dropped in comparison to the first half of 2022. As a result, an impairment was recorded in Q4 2022 which substantially reversed the recoveries recorded in the first half of 2022.

## RESULTS OF OPERATIONS

### Daily Production and Sales Volumes

Boe Conversions — Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrel of oil equivalents (“boe”) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
<b>Production</b>						
Natural gas (mcf/d)	9,684	11,800	(18%)	10,042	12,416	(19%)
Oil (bbl/d)	74	80	(8%)	66	77	(14%)
NGLs (bbl/d)	20	29	(33%)	21	29	(28%)
Condensate (bbl/d)	<u>43</u>	<u>61</u>	<u>(28%)</u>	<u>49</u>	<u>68</u>	<u>(28%)</u>
<b>Total production (boe/d)</b>	<b><u>1,751</u></b>	<b><u>2,137</u></b>	<b><u>(17%)</u></b>	<b><u>1,810</u></b>	<b><u>2,243</u></b>	<b><u>(19%)</u></b>
<b>Trading</b>						
Natural gas (mcf/d)	<u>125</u>	<u>130</u>	<u>(1%)</u>	<u>225</u>	<u>150</u>	<u>50%</u>
<b>Total trading (boe/d)</b>	<b><u>21</u></b>	<b><u>22</u></b>	<b><u>(1%)</u></b>	<b><u>37</u></b>	<b><u>25</u></b>	<b><u>50%</u></b>
<b>Total sales volume (boe/d)</b>	<b><u>1,772</u></b>	<b><u>2,159</u></b>	<b><u>(18%)</u></b>	<b><u>1,847</u></b>	<b><u>2,268</u></b>	<b><u>(19%)</u></b>

Total sales volume for the three months and year ended December 31, 2022 was 17% and 19% lower respectively, than the comparative period in 2021 attributable to natural declines.

The Company did not enter into any forward sales contracts during 2021, and traded gas on days when it would not be able to deliver its nominated volume. As nominations are made daily, a shortfall experienced on a given day can be rectified the next day adjusting the nomination to reflect changes in production. As the Company’s production is stable, shortfalls are infrequent as demonstrated by the small quantity of gas traded in 2022 and 2021 comprising only 2% and 1% respectively, of the total gas sold during the year.

Natural gas liquids (“NGLs”) and condensate production are by-products of natural gas. The amount of NGL and condensate production varies for each well, and their production rates as a percentage of natural gas production can change over time. On an absolute boe/d basis, NGL and condensate production declined commensurate with natural declines in natural gas production.

Oil production for the three months ended December 31, 2022 was 8% lower than the comparative period in 2021 as the Company shut-in production of one well. Oil production for the year ended December 31, 2022 was 14% lower attributable to natural declines as the well shut-in in October of 2022.

## Revenue

<i>C\$ 000s</i>	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
<b>Production</b>						
Natural gas	<b>5,314</b>	5,276	1%	<b>21,537</b>	17,010	27%
Crude oil	<b>707</b>	668	6%	<b>2,786</b>	2,089	33%
NGLs	<b>61</b>	80	(24%)	<b>372</b>	322	16%
Condensate	<b>475</b>	542	(12%)	<b>2,107</b>	2,060	2%
<b>Total production revenue</b>	<b>6,557</b>	6,566	(0%)	<b>26,802</b>	21,480	25%
<b>Trading</b>						
Natural gas trading revenue	<b>63</b>	52	21%	<b>383</b>	196	95%
Natural gas trading cost	<b>(59)</b>	(64)	(8%)	<b>(231)</b>	(207)	11%
<b>Total trading revenue (loss)</b>	<b>4</b>	(12)	133%	<b>152</b>	(11)	1,482%
<b>Other income</b>	<b>37</b>	17	110%	<b>77</b>	48	60%
<b>Total revenue</b>	<b>6,598</b>	6,571	0%	<b>27,032</b>	21,518	26%

Production revenue for year ended December 31, 2022 increased 25% over the comparative periods in 2021 as stronger commodity pricing offset the declines in production. Crude oil prices have strengthened materially in over the past twelve months, as demand has increased as the global economy started to recover from the COVID-19 pandemic and supply disruptions attributable to the war in the Ukraine. Pricing for NGLs and condensate are correlated to crude oil and have strengthened, evidenced by the decrease in production being disproportionate to the revenue for the three months and year ended December 31, 2022.

During the three months and year ended December 31, 2022, the Company experienced a trading gain reflecting the increased volatility in gas prices over the periods. Other income for the three months and year ended December 31, 2022 consistent with the comparative periods in 2021 on an absolute revenue basis.

### Commodity prices

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
<b>Natural gas (C\$/mcf)</b>						
Average market price (AECO)	<b>5.85</b>	4.79	22%	<b>5.51</b>	3.57	54%
Average trading price	<b>5.38</b>	4.35	24%	<b>4.67</b>	3.59	30%
Average trading cost price	<b>5.08</b>	5.35	(5%)	<b>2.81</b>	3.79	(26%)
Average sales price	<b>5.70</b>	4.73	20%	<b>5.65</b>	3.65	55%
<b>Crude oil (C\$/bbl)</b>						
Average market price (Edmonton Par)	<b>73.65</b>	91.82	(20%)	<b>97.05</b>	79.71	22%
Average sales price	<b>115.63</b>	85.22	54%	<b>114.81</b>	74.10	55%
Sales/market differential	<b>57%</b>	(7%)		<b>18%</b>	(7%)	
<b>NGLs (C\$/bbl)</b>						
Average market price (Propane/Butane)	<b>49.19</b>	52.67	7%	<b>49.19</b>	47.37	4%
Average sales price	<b>42.41</b>	27.55	54%	<b>49.36</b>	30.90	60%
Sales/market differential	<b>14%</b>	(48%)		<b>0%</b>	(35%)	
<b>Condensate (C\$/bbl)</b>						
Average market price (Pentane Plus)	<b>114.10</b>	96.20	19%	<b>114.10</b>	85.28	34%
Average sales price	<b>113.43</b>	97.68	16%	<b>118.05</b>	83.33	42%
Sales/market differential	<u><b>(1%)</b></u>	<u>2%</u>		<u><b>3%</b></u>	<u>(2%)</u>	

Realized gas price sales for the three months ended December 31, 2022 was 20% higher than the same period in 2021 due to AECO pricing for the period increasing. The Company does not utilize forward contracts to sell its gas and daily trading prices do not necessarily reflect the average AECO price for the period.

Realized gas price sales for the year ended December 31, 2022 was 55% higher than the same period in 2021, attributable to significantly stronger AECO market pricing.



During the three months and years ended December 31, 2022 and 2021, the Company traded gas as required to meet shortfalls in its daily production nomination. The average trading price is a function of the gains or losses realized on the quantity and price of gas traded over a given time, and therefore not directly comparable to prior periods.

NGL production is tied to natural gas production. The Company's natural gas wells produce varying amounts of NGLs (propane and butane), which are sold at different prices in the market. As some wells are shut-in, the NGL production matrix is impacted, resulting in a changing realized price dependent on the composition of NGLs. Additionally, the quantity of butane and propane produced by a well can change over time. Generally the more butane produced, the higher the realized price for NGLs. For the three months ended December 31, 2022, realized NGL prices were above average market prices as the Company's NGLs were butane weighted.

The Company's realized condensate and crude oil prices for the three months and year ended December 31, 2022 were higher than the average market prices over the same period attributable to the quality of the oil produced. Variations from the benchmark are a function of product sales occurring periodically over the quarter and year, compared to the average daily reference price.

## Royalties

<i>C\$ 000s</i>	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural gas, NGLs and condensate	961	963	0%	3,647	2,093	74%
Crude oil	<u>275</u>	<u>232</u>	<u>19%</u>	<u>1,022</u>	<u>570</u>	<u>79%</u>
<b>Total royalties</b>	<b><u>1,236</u></b>	<b><u>1,195</u></b>	<b><u>3%</u></b>	<b><u>4,669</u></b>	<b><u>2,663</u></b>	<b><u>75%</u></b>
<b>Effective average royalty rate</b>	<b><u>19%</u></b>	<b><u>18%</u></b>	<b><u>4%</u></b>	<b><u>17%</u></b>	<b><u>12%</u></b>	<b><u>40%</u></b>

In Alberta, royalties are set by a sliding scale formula containing separate elements that account for market price and well production. Royalty rates will fluctuate to reflect changes in production rates, market prices and cost allowances. On a "per-well" basis, for the three months and year ended December 31, 2022 and 2021, the Company's base royalty rate for natural gas ranged from 5% to 26%, the base royalty rate for NGLs (propane and butane) was 30% and the base royalty rate for condensate and crude oil was 40%. Effective royalty rates can differ from the base rates if the production qualifies for any cost allowances which offset the base amount payable.

The Company forecasts its effective royalty rate will range between 15–20% for 2023, reflecting new production from Basing and Voyager which benefit from the Modernizing Alberta’s Royalty Framework, under which a company will pay a flat royalty of 5% on a well’s early production until the well’s total revenue from all hydrocarbon products equals the drilling and completion cost allowance.

## Operating Costs

<i>C\$ 000s</i>	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural gas, NGLs and condensate	<b>2,894</b>	3,171	(9%)	<b>12,146</b>	13,788	(12%)
Crude oil	<u>200</u>	<u>237</u>	<u>(16%)</u>	<u>679</u>	<u>595</u>	<u>14%</u>
<b>Total operating costs</b>	<b><u>3,094</u></b>	<b><u>3,408</u></b>	<b><u>(9%)</u></b>	<b><u>12,825</u></b>	<b><u>14,383</u></b>	<b><u>(11%)</u></b>
<b>Unit Cost (C\$/boe)</b>						
Natural gas, NGLs and condensate	<b>17.24</b>	16.76	3%	<b>19.09</b>	17.44	9%
Crude oil	<b>39.33</b>	32.13	22%	<b>27.97</b>	21.11	33%
Average cost	<b><u>17.89</u></b>	<b><u>17.34</u></b>	<b><u>3%</u></b>	<b><u>19.42</u></b>	<b><u>17.57</u></b>	<b><u>11%</u></b>

Total operating costs (“**opex**”) for natural gas, NGLs and condensate for the three months and year ended December 31, 2022 were 9% and 12% lower respectively than the comparative periods in 2021, attributable to the lower volume of production in the current periods. On a Unit Cost basis, 2022 crude oil opex for the year ended December 31, 2022 was higher than the comparative period reflecting increased liquids handling and water disposal charges. For the three months ended December 31, 2022, the crude oil operating costs was lower than 2021 by 16%, reflecting a decrease in production.

## General and Administrative Costs

<i>C\$ 000s</i>	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Staff costs	207	181	14%	813	750	8%
Directors fees	30	30	—	120	120	—
Phantom Unit charges (recovery)	(9)	(156)	(94%)	129	334	(61%)
Accounting, legal and consulting fees	774	735	5%	1,644	1,377	19%
Office	33	37	(11%)	173	125	38%
Share-based expense	19	30	(37%)	57	118	(52%)
Other	<u>44</u>	<u>38</u>	<u>16%</u>	<u>148</u>	<u>142</u>	<u>4%</u>
<b>Total G&amp;A costs</b>	<b><u>1,098</u></b>	<b><u>895</u></b>	<b><u>23%</u></b>	<b><u>3,008</u></b>	<b><u>2,966</u></b>	<b><u>1%</u></b>
Capitalized staff costs	<u>88</u>	<u>132</u>		<u>353</u>	<u>353</u>	

Total general and administrative (“G&A”) costs for the three months ended December 31, 2022 was 14% higher than the comparative period in 2021, attributable to costs and recoveries associated with the Phantom Unit Plan reflecting changes in the Company’s share price over the same period.

For the year ended December 31, 2022, the Company’s accounting, legal and consulting fees in the current period were approximately C\$192k higher than the same period in 2021, reflecting increases in the Company’s audit and professional fees. For the year ended December 31, 2022, office expenses increased C\$48k over the same period in 2021 primarily due to increased insurance costs related to the Companies resources properties. Other costs include memberships, travel and accommodation, and the total amounts are consistent with the prior period. Capitalized G&A costs are comprised of qualifying expenditures in respect of geological and geophysical activities.

## Finance Expenses

C\$ 000s	Three months ended			Year ended		
	December 31,			December 31,		
	2022	2021	Change	2022	2021	Change
Interest expense and financing costs:						
Subordinated debt	416	892	(53%)	2,061	3,888	(47%)
Right of use assets and leases	119	75	59%	290	295	(2%)
Commitment charges	18	63	(71%)	79	129	(39%)
	131	191	(31%)	131	191	(31%)
Other financing costs and bank charges	2	9	(78%)	7	28	(74%)
Accretion expenses:					—	
Decommissioning liabilities	6	1	500%	75	32	134%
Shareholder loans	30	(72)	(142%)	99	(26)	480%
Amortization of debt issuance costs	129	140	(8%)	516	516	(0%)
<b>Total finance expenses</b>	<b>851</b>	<b>1,298</b>	<b>(34%)</b>	<b>3,257</b>	<b>5,053</b>	<b>(36%)</b>

For the three months and year ended December 31, 2022 and 2021, interest expense was incurred from the Company's subordinated debt and capitalized leases. Following a principal payment of C\$4.3M in December 2021 which reduced the principal from C\$24.3 million to C\$20 million, the interest rate on the Company's subordinated debt reverted from 16% to 12%. During the first and second quarters of 2022, the Company made a further C\$5 million of principal payments reducing the subordinated debt to C\$15 million, and the interest rate has lowered to 10% for the remainder of the term pursuant to the 2022 Restructuring (as defined in the section titled "Capital Resources" herein).

For the three months and year ended December 31, 2022 and 2021, accretion expenses were incurred from decommissioning liabilities and the fair-value adjustment of the Company's shareholder loans. Amortization of debt issuance costs includes legal fees, commissions and commitment fees which were incurred for the closing and subsequent amendments to the subordinated debt facility (refer to Note 13 to the 2022 Audited Financial Statements). These costs are capitalized against the debt and amortized over the term.

## Depletion, Depreciation and Amortization

<i>C\$ 000s except per unit costs</i>	Three months ended			Year ended		
	December 31,			December 31,		
	2022	2021	Change	2022	2021	Change
Depletion	1,593	1,448	10%	5,293	4,789	11%
Depreciation	10	9	—	36	38	(5%)
Amortization of right of use assets	190	190	—	760	745	2%
<b>Total DD&amp;A</b>	<b>1,793</b>	<b>1,647</b>	<b>9%</b>	<b>6,089</b>	<b>5,572</b>	<b>9%</b>
<b>Per boe</b>	<b>10.37</b>	<b>8.38</b>	<b>24%</b>	<b>9.22</b>	<b>6.81</b>	<b>35%</b>

Depletion, depreciation and amortization (“DD&A”) expense is comprised of depletion incurred from production of the Company’s developed assets, the depreciation expense is comprised of the depreciation of fixed assets including office furniture, office equipment, vehicles, computer hardware and computer software and amortization of capitalized leases carried as right of use assets.

Depletion is a function of both production and the capitalized value of assets subject to depletion. The increase in DD&A on a per boe basis for the three months and year ended December 31, 2022 over the comparative periods in 2021 is attributable to the reduction in Company’s reserves from production.

## Impairment Recovery and Write-Offs

<i>C\$ 000s</i>	Three months ended			Year ended		
	December 31,			December 31,		
	2022	2021	Change	2022	2021	Change
E&E write-offs	617	246	100%	756	278	100%
PP&E impairment (recovery)	8,271	(573)	100%	(17)	(4,591)	100%
<b>Total impairment (recovery)</b>	<b>8,888</b>	<b>(327)</b>	<b>100%</b>	<b>738</b>	<b>(4,313)</b>	<b>100%</b>

For the three months ended December 31, 2022, the Company identified indicators of impairment of its PP&E assets in the Basing and Voyager cash generating unit (“CGU”), attributable to changes in commodity prices. The recoverable amount of the Basing and Voyager CGU’s was estimated based upon the higher of value in use or fair value less costs of disposal. Fair value less costs of disposal was used, and the recoverable amount is within the Level 3 hierarchy of IFRS 13.

The Company calculated the recoverable amount of the Basing CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate, with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the

carrying amount of the Company's Basing CGU million was higher than its recoverable amount, and the Company recognized an impairment of C\$7.6 million offsetting the prior impairment recoveries of C\$4.1 million at March 31, 2022 and C\$4.2 million at June 30, 2022. E&E write-offs of C\$139k for the year ended December 31, 2022 are attributable to the expiration of undeveloped land in the Company's Basing CGU.

The Company calculated the recoverable amount of the Voyager CGU based on forecasted cash flows from proved plus probable reserves using a 14% before-tax discount rate, with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Voyager CGU million was higher than its recoverable amount, and the Company recognized an impairment of C\$0.7. E&E write-offs of C\$617k for the three months ended December 31, 2022 are attributable to the expiration of undeveloped land in the Company's Basing CGU.

**(Loss) and Comprehensive (Loss)**

<i>C\$ 000s</i>	<b>Three months ended</b>			<b>Year ended</b>		
	<b>December 31,</b>			<b>December 31,</b>		
	<b>2022</b>	2021	Change	<b>2022</b>	2021	Change
Income (loss) and comprehensive income (loss)	<u>(10,312)</u>	(1,548)	566%	<u>(3,579)</u>	(4,809)	26%
<b>Total income (loss) and comprehensive income (loss)</b>	<u><b>(10,312)</b></u>	<u>(1,548)</u>	<u>566%</u>	<u><b>(3,579)</b></u>	<u>(4,809)</u>	<u>26%</u>

(Loss) and comprehensive (loss) for the three months ended December 31, 2022 was 566% lower than the comparative period in 2021, attributable to the impairment charges on the Company's CGUs.

(Loss) and comprehensive (loss) for the year ended December 31, 2022 was 26% higher than the comparative period in 2021, attributable to the increase in commodity pricing during 2022 and decreased finance expenses.

## CAPITAL EXPENDITURES

C\$ 000s	Three months ended			Year ended		
	December 31,			December 31,		
	2022	2021	Change	2022	2021	Change
<b>PP&amp;E</b>						
Production facilities	3	751	(100%)	144	764	(81%)
Drilling, completion and workovers	78	7,473	(99%)	774	7,500	(90%)
G&A costs capitalized	88	95	(7%)	353	360	(2%)
<b>Total PP&amp;E</b>	<b>168</b>	<b>8,319</b>	<b>(98%)</b>	<b>1,270</b>	<b>8,624</b>	<b>(85%)</b>
<b>E&amp;E Assets</b>						
G&A costs capitalized	—	(44)	(100%)	—	—	—
Drilling	4,883	—	100%	4,883	—	100%
Production facilities	1	(2,789)	(100%)	21	—	100%
<b>Total E&amp;E</b>	<b>4,884</b>	<b>(2,833)</b>	<b>(272%)</b>	<b>4,903</b>	<b>—</b>	<b>100%</b>
<b>Total PP&amp;E and E&amp;E</b>	<b>5,052</b>	<b>5,486</b>	<b>(8%)</b>	<b>6,173</b>	<b>8,624</b>	<b>(28%)</b>
Change in non-cash working capital	(3,852)	2,455	(257%)	(5,515)	3,734	(248%)
<b>Total</b>	<b>1,200</b>	<b>7,941</b>	<b>(85%)</b>	<b>658</b>	<b>12,357</b>	<b>(95%)</b>

For the three months and year ended December 31, 2022 total PP&E capital expenditures (“capex”) was C\$5.1 and C\$6.2 million, respectively, compared to C\$5.5 and C\$8.6 million in same periods in 2021. The decrease is attributable to the capex in E&E assets not being brought into production and the Company was not required to complete the well saving approximately C\$2M. In the three months and year ended December 31, 2022 and 2021, the Company capitalized a total of C\$0.1 and C\$0.4 million of G&A respectively, in accordance with its accounting policies (refer to Note 4 in the 2022 Audited Financial Statements).

## LIQUIDITY AND CAPITAL RESOURCES

### Capital management

The Company’s general policy is to maintain an appropriate capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Company’s objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows the

Company to favor the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, shareholders' loans, subordinated debt, other liabilities and working capital. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt. As disclosed in Note 3 of the Financial Statements, the Company's future viability is dependent on its ability to source additional capital on acceptable terms.

### Capital structure of the Company

The Company's capital structure is as follows:

<i>C\$ 000s</i>	<b>As at December 31, 2022</b>	As at December 31, 2021
Long term debt <sup>(1)</sup>	—	17,355
Other liabilities	<b>656</b>	599
Long-term lease liabilities <sup>(2)</sup>	<b>862</b>	2,448
Net working capital deficit <sup>(2)</sup>	<b>36,968</b>	22,740
	<hr/>	<hr/>
Net debt	<b>38,486</b>	43,142
Shareholders' equity <sup>(3)</sup>	<b>8,678</b>	5,014
	<hr/>	<hr/>
<b>Total capital</b>	<b>47,163</b>	48,156
	<hr/> <hr/>	<hr/> <hr/>
<b>Gearing ratio<sup>(4)</sup></b>	<b>82%</b>	90%
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- 1 This is the fair value of the long-term debt.
- 2 Net working capital consists of current assets less current liabilities. The current portion of lease liabilities is included in net working capital.
- 3 As at December 31, 2022, the Company has 449,886,520 common shares issued and outstanding and 8 million warrants issued with a strike price of HK\$0.58 per warrant, 3.78 million stock options issued with a strike price of HK\$0.52 per option, and 0.8 million stock options issued with a strike price of HK\$0.48 per option.
- 4 Gearing ratio is defined as net debt as a percentage of total capital.



As at December 31, 2022, net working capital includes C\$15.75 million of subordinated debt which matures in May 2023 and C\$2.6 million of shareholder loans which are due for repayment in 2023. Subsequent to year end, the shareholder loans were amended to be due for repayment in 2024. The 2021 working capital deficit includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022.

### **Performance services guarantee (“PSG”) facility**

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada (“EDC”) totaling C\$4.4 million. On July 30, 2020 the aggregate PSG was reduced to C\$1.85 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit (“L/C”) on behalf of the Company. Previously, these L/C’s were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C’s subject to subsequent approval by the EDC. As at December 31, 2022 the Company has PSG coverage for the following L/C’s:

<b>Amount</b>	<b>Expiry</b>
C\$1,100,000	March 16, 2023
C\$408,158	December 30, 2023

The PSG facility has a 12 month term and must be renewed annually and the current term expires on September 30, 2023. If the facility is not approved for renewal, the PSG coverage will terminate at the expiry of the existing L/C’s and the Company will seek alternative insurance arrangements to guarantee the L/C’s or cash collateralize them.

On March 16, 2023 the L/C for C\$1,100,000 was reduced to C\$710,000 in accordance with the contract.

### **Capital resources**

The Company operates in a capital intensive industry. The Company’s liquidity requirements arise principally from the need for financing the expansion of its exploration and development activities, acquisition of land leases and petroleum and natural gas licenses. The Company’s principal sources of funds have been proceeds from bank borrowings, equity financings, shareholder loans and cash generated from operations. The Company’s liquidity primarily depends on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company’s future operating and capital expenditure requirements.

On September 1, 2021, the Company and a JX Energy director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The proceeds

were used to fund part of the capital costs for the new Basing well and general corporate purposes. During the year ended December 31, 2022, the Company repaid C\$2.998 million of the 2021 Shareholder Loan, the balance of C\$0.2k is held as a Current Liability.

On December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$12.8 million (C\$2.05 million) with Jilin Nuoshida Energy Investment Co., Ltd. (“**Jilin**”). On June 8, 2021 the Company entered into a subscription agreement with Dalian Yongli Petrochemical Ltd. (“**Dalian**”) (as subsequently amended as detailed in the Company’s announcement on October 28, 2021) pursuant to which the Company conditionally agreed to allot and issue, and Dalian conditionally agreed to subscribe for 55 million common shares at a minimum price of HK\$0.80 per share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement, supplemental agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Independent Shareholders approval was obtained at a special general meeting of shareholders on October 15, 2021. On December 13, 2021, the Company completed the first tranche of the Dalian subscription agreement issuing 20 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$16 million (C\$2.56 million). On April 29, 2022, the Company completed the second and final tranche of the Dalian subscription agreement issuing 35 million common shares at a price of HK\$0.80 per common share (“**Dalian Tranche 2**”) for gross proceeds of HK\$28 million (C\$4.48 million).

On May 5, 2022, the Company entered into a subscription agreement with Dalian, pursuant to which the Company conditionally agreed to allot and issue, and Dalian conditionally agreed to subscribe for 17 million common shares at a price of HK\$1.00 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. On July 18, 2022 the Company completed the placing to Dalian for gross proceeds of HK\$17 million (C\$2.75 million).

On November 18, 2022, the Company entered into a private placement subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and the subscriber conditionally agreed to subscribe for 10 million common shares at a price of HK\$1.11 per common share. As at March 30, 2023, the subscription proceeds have not been received and are expected in April 2023. Upon receipt, the funds will be used to pay outstanding accounts payable from the well drilled in Basing during quarter four of 2023.

At December 31, 2022, the Company had a working capital deficiency of C\$37.0 million and has fully drawn C\$15 million on its subordinated debt, which is subject to certain covenants and matures on May 15, 2023. As at December 31, 2022 and 2021, the Company was in compliance with all covenants associated with the subordinated debt.

On March 11, 2022, the Company and lender agreed to restructure the loan agreement (the “**2022 Restructuring**”). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13 of the 2021 Audited Financial Statements) have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before September 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023. During the second quarter of 2022, the Company made principal payments totalling C\$5.0 million, satisfying the 2022 principal payment obligations pursuant to the 2022 Restructuring. The subordinated debt matures in May 2023, assuming the final March 2023 principal payment is made, the loan will total C\$14.75 million at maturity.

The Company obtained new long-term debt through a combination of a shareholder loan from Jixing for US\$8 million, and US\$3.5 million from CIMC Leasing USA, Inc. (the “**CIMC Loan**”). As a condition of the shareholder loan and CIMC Loan, on March 27, 2023 the Company repaid the outstanding secured debt balance of C\$15.75 million plus C\$116k of interest. The shareholder loan will have a term of 48 months and bare interest of 9.25% per annum. The Company will be required to make monthly interest and principal payments of US\$200,031.36.

The CIMC Loan will have a term of 48 months, bare interest of 9.25% per annum and is secured by the fixed assets owned by the Company, excluding its Oil and Gas assets, and a personal guarantee from Mr. Yongtan Liu, the Company’s Chairman. The Company will be required to make monthly interest and principal payments of US\$87,513.72. The CIMC Loan will be senior to all other debt and equity payments, including the Jixing Gas Handling and Jixing Voyager Compression Agreements.

The global impact of COVID-19 has resulted in significant volatility in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. These factors may have a negative impact on the Company’s operations and its ability to raise financing to meet its covenants. If the Company is in breach of any covenants in future periods the lender will have the right to demand repayment of all amounts owed under the subordinated debt.

The Company’s ability to continue as a going concern is dependent upon the ability to generate positive cash flow from operations, equity and/or debt financing, disposing of assets or other arrangements to fund future development capital and ongoing operations. There are no assurances that any transactions will be completed on terms acceptable to the Company. These conditions cause material uncertainty which casts significant doubt on the Company’s ability to continue as a going concern.

## Use of proceeds from the Dalian Tranche 2 Subscription

<i>C\$ 000,000</i>	<b>% of total net proceeds</b>	<b>Planned use of net proceeds from the Closing Date to December 31, 2022<sup>2</sup></b>	<b>Actual use of net proceeds during the period from the Closing Date to December 31, 2022<sup>2</sup></b>	<b>Proceeds unused</b>
<b>Business objective as stated in the Circular<sup>1</sup></b>				
Drilling new well at Basing	35%	1.51	1.51	—
SubDebt principal payment	45%	1.94	1.94	—
General working capital	20%	0.86	0.86	—
<b>Total</b>	<b>100%</b>	<b>4.31</b>	<b>4.31</b>	<b>—</b>

Notes:

- (1) Refer to the Company's shareholder proxy circular (the "Circular") dated September 17, 2021.
- (2) The Dalian Tranche 2 subscription was closed on July 18, 2022 (the "Closing Date").

## Use of proceeds from the November Subscription

<i>C\$ 000,000</i>	<b>% of total net proceeds</b>	<b>Planned use of net proceeds from the Closing Date to December 31, 2022</b>	<b>Actual use of net proceeds during the period from the Closing Date to December 31, 2022</b>	<b>Proceeds unused<sup>2</sup></b>
<b>Business objective as stated in the announcement<sup>1</sup></b>				
Drilling exploration well at Basing	100%	1.88	—	—
<b>Total</b>	<b>100%</b>	<b>1.88</b>	<b>—</b>	<b>—</b>

Notes:

- (1) Refer to the Company's announcement dated November 18, 2022.
- (2) The subscription proceeds have not been received as of March 30, 2023.

## **SHARES, WARRANTS AND STOCK OPTIONS OUTSTANDING**

### **Common Shares**

On December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$12.8 million (approximately C\$2.05 million). On December 13, 2021, the Company completed the first tranche of a private placement issuing 20 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$16 million (C\$2.56 million). On April 29, 2022, the Company completed the second and final tranche of the Dalian subscription agreement issuing 35 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$28 million (C\$4.48 million).

On May 5, 2022, the Company entered into a subscription agreement with Dalian, pursuant to which the Company conditionally agreed to allot and issue, and Dalian conditionally agreed to subscribe for 17 million common shares at a price of HK\$1.00 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. On July 18, 2022 the Company completed the placing to Dalian.

In November 2022, the Company entered into a private placement subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and the subscriber conditionally agreed to subscribe for 10 million common shares at a price of HK\$1.11 per common share.

As at December 31, 2022, the Company has 449,886,520 common shares outstanding.

### **Warrants**

On August 13, 2018, the Company issued 8.0 million warrants for total consideration of C\$0.75 million. The warrants were issued with an exercise price of HK\$3.16 per warrant and a term of 5 years. No warrants have been exercised for the three and nine months ended September 30, 2022 and 2021 and up to the date of the MD&A. As at September 30, 2022 and as at the date of this MD&A, the Company has 8 million warrants outstanding (2021: 8 million). Pursuant to the 2020 Restructuring (see Note 13 of the audited financial statements for the year ended December 31, 2021), the Company has agreed to re-price the 8 million share purchase warrants previously issued to the lender. This re-pricing was subject to the Stock Exchange and Shareholder approval which was granted in August 2022. The new exercise price of the warrants was calculated at HK\$0.58 based on the average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding the date on which the re-pricing of the exercise price of the warrants is approved by the Shareholders. Refer to Note 16 in the Financial Statements for additional information in respect of the amendments to the warrants.

As part of the repayment of the subordinated debt on March 27, 2023, the warrants were forfeited unexercised.

## **Stock Options**

The Company has a stock option plan which was approved and adopted by the shareholders of the Company by ordinary resolution passed on June 8, 2018 (“**Stock Option Plan**”). On May 18, 2020, the Company issued 3.78 million options with an exercise price of HK\$0.52 per option and a term of 5 years. On November 30, 2022, the Company issued 0.8 million options with an exercise price of HK\$0.48 per option and a term of 5 years. The options vest equally over a 3 year period, with the first tranche vesting on the first anniversary of the award, and the second and third tranches vesting equally on the second and third anniversary respectively. As at December 31, 2022 and as at the date of this MD&A, the Company has 4.58 million options outstanding (2021: 3.78 million).

## **COMMITMENTS**

Commitments and contingencies exist under various agreements and operations in the normal course of the Company’s business. Refer to Note 21 of the Financial Statements and Note 28 of the 2021 Audited Financial Statements for disclosure of the Company’s commitments and contingencies.

## **DIVIDEND**

The Board did not approve the payment of a dividend for the years ended December 31, 2022 and 2021.

## **RELATED PARTY TRANSACTIONS**

Refer to Note 19 of the Financial Statements and Note 26 of the 2022 Audited Financial Statements for disclosure of the Company’s related party transactions.

## **OFF-BALANCE SHEET TRANSACTIONS**

The Company was not involved in any off-balance sheet transactions during the three months and year ended December 31, 2022 and 2021.

## **PLEDGED ASSETS**

As disclosed in this MD&A, all assets are pledged in support of the Company’s debt arrangements and there are no other pledges.

## **CONTINGENT LIABILITIES**

As at December 31, 2022 and up to the date of this MD&A, the Company had no material undisclosed contingent liabilities.

## **SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

Save as disclosed in this MD&A, the Company has neither any other significant investments nor significant acquisitions and disposals of the relevant subsidiaries, associates and joint ventures during the three months and year ended December 31, 2022 and up to the date of this MD&A.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

Save as disclosed in this MD&A, the Company did not have other plans for material investments or capital assets as of the date of this MD&A, as pursuant to paragraphs 32(4) and 32(9) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

## **EVENTS AFTER THE REPORTING PERIOD**

The Company obtained new long-term debt through a combination of a shareholder loan from Jixing for USD\$8 million, and USD\$3.5 million from CIMC Leasing USA, Inc. (the “**CIMC Loan**”). As a condition of the shareholder loan and CIMC Loan, on March 27, 2023 the Company repaid the outstanding SubDebt (as defined in Note 12 of the 2022 Audited Financial Statements) balance of C\$15.75 million plus C\$116k of interest. Upon repayment of the SubDebt, the warrants were forfeited unexercised.

The shareholder loan will have a term of 48 months and bare interest of 9.25% per annum. The Company will be required to make monthly interest and principal payments of USD\$200,031.36.

The CIMC Loan will have a term of 48 months, bare interest of 9.25% per annum and is secured by the fixed assets owned by the Company, excluding its Oil and Gas assets, and a personal guarantee from Mr. Yongtan Liu, the Company’s Chairman. The Company will be required to make monthly interest and principal payments of USD\$87,513.72.

The CIMC Loan will be senior to all other debt and equity payments, including the Jixing Gas Handling and Jixing Voyager Compression Agreements.

Mr. Liu and/or interests under his control, have loans with CIMC Capital (China), the parent company of CIMC Leasing USA, Inc. In the event that there is a default with the existing loans with CIMC Capital (China), it will trigger a default of the CIMC Loan and shareholder loan from Jixing, and the outstanding balances will immediately become due.

## **FINANCIAL RISK MANAGEMENT**

The board of directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The board 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. The Company’s financial risks are discussed in Note 27 of the 2022 Audited Financial Statements.

The Company holds a number of financial instruments, the most significant of which are accounts receivable, accounts payable and accrued liabilities, cash and cash equivalents, subordinated debt and shareholder loans. Due to their near term maturities, accounts receivable, accounts payable and accrued liabilities, cash and cash equivalents and shareholder loans are recorded at fair value. The subordinated debt is recorded at amortized cost.

The Company did not enter into any financial derivatives contracts for the three months and year ended December 31, 2022 and 2021. For the three months ended December 31, 2022, the Company experienced a foreign exchange loss of C\$25 (2021: C\$400). For the year ended December 31, 2022, the Company experienced a foreign exchange gain of C\$75 (2021: loss C\$607). These foreign exchange gains and losses are related to the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the Hong Kong Dollars/Canadian Dollars exchange rates. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation and the Company currently does not have a foreign currency hedging policy, however, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Periodically, the Company has entered into fixed price physical commodity contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. As the price for natural gas in western Canada has strengthened over the past year the Company has not entered into any additional contracts up to the date of this MD&A. The Company continually monitors the market for its products and will manage commodity risk in the future through the use of fixed physical and/or derivative contracts in periods of pricing weakness.

## **RELATIONSHIPS WITH STAKEHOLDERS**

The Company has actively cultivated, established, and maintained positive relationships with First Nations and all individuals and other enterprises who are proximate to, or interested in, the Company's projects. The Company provides project updates and meets with the local community on a regular basis to discuss its current and anticipated operations to pro-actively manage any potential concerns or issues. The Company also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Company's adherence to all requisite rules, regulations, and laws which pertain the Company's activities.

## **HUMAN RESOURCES**

The Company had 6 employees as at December 31, 2022 (2021: 6 employees). The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. Employee compensation for the year ended



December 31, 2022 totaled C\$1.5 million (2021: C\$1.7 million). In relation to staff training, the Company also provides different types of programs for its staff to improve their skills and develop their respective expertise.

## **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. 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.

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 5 of the 2022 Audited Financial Statements.

## **CHANGES IN ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with all applicable IFRSs as issued by the IASB. The IASB has issued a number of new and revised IFRSs effective January 1, 2022. For the purpose of preparing the financial statements, the Company has adopted all applicable new and revised IFRSs for the year ended December 31, 2022 (refer to Notes 4(r) and 4(s) of the 2022 Audited Financial Statements).

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

For the period starting January 1, 2022 and ending December 31, 2022, Mr. Pingzai Wang in the capacity as Chief Executive Officer (“CEO”), and Mr. Jesse Meidl, Chief Financial Officer (“CFO”) of the Company until August 15, 2022 and Ms. Tara Leray, CFO after August 15, 2022, have designed, or caused to be designed under their supervision, disclosure controls and procedures (“DC&P”) to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company’s CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

For the period starting January 1, 2022 and ending December 31, 2022, Mr. Pingzai Wang and Mr. Jesse Meidl and Ms. Tara Leray, in their capacity as CEO and CFO’s of the Company respectively, have designed or caused to be designed under their supervision, internal controls over financial reporting (“ICFR”) to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute,

assurance that the objective of the control system is met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

There were no changes made to JX Energy's internal controls over financial reporting during the period beginning on January 1, 2022 and ending on December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management has concluded that JX Energy's ICFR and DC&P was effective as of December 31, 2022. This assessment was based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

## **RISK FACTORS AND RISK MANAGEMENT**

The Board has established a framework for identifying, evaluating and managing key risks faced by the Company. The Board, through the Audit and Risk Committee, reviews annually the effectiveness of the internal control system of the Company, considering factors such as:

- changes, since the last annual review, in nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;
- the extent and frequency of communication of monitoring results to the board which enables it to assess control of the Company and the effectiveness of risk management;
- the adequacy of resources, staff qualifications and experience and training programmes;
- budget of the Company's accounting and financial reporting functions; communication of the monitoring results to the Board that enables it to assess control of the Company and the effectiveness of the risk management;
- significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have caused unforeseeable outcomes or contingencies that had or might have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes for financial reporting and compliance with applicable listing rules and securities laws.

The liquidity position of JX Energy would be expected to be improved by a material increase in future commodity prices and an increase in proved and probable reserves based on the Company's drilling program. The Company is involved in regular discussions with its lender and is continually pursuing other financing opportunities such as alternative debt arrangements, joint venture opportunities, property acquisitions or divestitures and other recapitalization opportunities and is taking steps to

manage its spending and leverage including the implementation of cost reduction and capital management initiatives. If the Company is unable to obtain additional financing or come to some other arrangement with its lender, it will be required to curtail certain capital expenditure activities and/or possibly be required to liquidate certain assets. Ongoing exploration and development of JX Energy's properties will require substantial additional capital investment. Failure to secure additional financing, and/or secure other funds from asset sales, would result in a delay or postponement of development of these prospective properties. There can be no assurance that additional financing will be available or that, if available, will be on terms favourable or acceptable to JX Energy.

JX Energy monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations, royalty regime or taxation. In addition, JX Energy maintains a level of liability, business interruption and property insurance which is believed to be adequate for the Company's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "Forward-Looking Information" in this MD&A and "Risk Factors" in the Company's Annual Information Form ("AIF") for the year ended December 31, 2022. The AIF is available at the Company's website at [www.jxenergy.ca](http://www.jxenergy.ca) and also [www.sedar.com](http://www.sedar.com).

## **IMPACT OF NEW ENVIRONMENTAL REGULATIONS**

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the conduct of the Company's business more expensive or prevent the Company from conducting its business as currently conducted. JX Energy focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

## NON-IFRS FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms “operating netback” and “adjusted EBITDA” which are not recognized measures under IFRS, and do not have a standardized meaning prescribed by IFRS. Accordingly, the Company’s use of these terms may not be comparable to similarly defined measures presented by other companies. Management considers operating netback an important measure to evaluate the Company’s operational performance, as it demonstrates its field level profitability relative to current commodity prices. Management uses adjusted EBITDA to measure the Company’s efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-IFRS measures should not be construed as an alternative to net income determined in accordance with IFRS as an indication of the Company’s performance.

### Operating netback

<i>C\$ 000s</i>	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Commodity sales from production	6,557	6,566	(0%)	26,802	21,480	25%
Net trading revenue (loss)	4	(12)	133%	152	(11)	1,482%
Royalties	(1,236)	(1,195)	3%	(4,669)	(2,663)	75%
Operating costs	<u>(3,094)</u>	<u>(3,408)</u>	<u>(9%)</u>	<u>(12,825)</u>	<u>(14,383)</u>	<u>(11%)</u>
<b>Operating netback</b>	<b><u>2,231</u></b>	<b><u>1,951</u></b>	<b><u>14%</u></b>	<b><u>9,461</u></b>	<b><u>4,423</u></b>	<b><u>114%</u></b>

### Adjusted EBITDA

<i>C\$ 000s</i>	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
(Loss) and comprehensive (loss)	(10,312)	(1,549)	566%	(3,579)	(4,809)	(26%)
Finance expenses	851	1,300	(35%)	3,257	5,053	(36%)
Depreciation and amortization	1,793	1,648	9%	6,089	5,572	9%
Non-cash share-based expense	19	30	(37%)	571	18	(52%)
Phantom unit (recovery) expense	(9)	(156)	(94%)	129	334	(61%)
Impairment (recovery)	<u>8,913</u>	<u>(327)</u>	<u>(2,826%)</u>	<u>763</u>	<u>(4,313)</u>	<u>(118%)</u>
<b>Adjusted EBITDA</b>	<b><u>1,255</u></b>	<b><u>947</u></b>	<b><u>33%</u></b>	<b><u>6,716</u></b>	<b><u>1,955</u></b>	<b><u>243%</u></b>

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions contained in Part 2 of the Corporate Governance Code as set out

in Appendix 14 to the Listing Rules (the “**CG Code**”) to ensure that the Company’s business activities and decision making processes are regulated in a proper and prudent manner. The Company has complied with the relevant code provisions contained in the CG Code during the year ended December 31, 2022 (the “**Reporting Period**”).

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities. Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Reporting Period.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

On April 29, 2002, the Company completed a private placement issuing 35 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$28 million (C\$4.48 million).

On July 18, 2022, the Company completed a private placement issuing 17 million common shares at a price of HK\$1.00 per common share (C\$2.8 million).

Save as disclosed above, the Company has not purchased, redeemed or sold any of its listed securities during the Reporting Period.

## **REVIEW OF ANNUAL RESULTS**

The annual results announcement of the Company for the year ended December 31, 2022, was reviewed by the audit and risk committee of the Company (the “**Audit and Risk Committee**”) and approved by the Board. The financial figures in respect of the Company’s financial statements for the year ended December 31, 2022 as set out in the announcement in relation to the annual results for the year ended December 31, 2022 have been compared by the Company’s auditor, BDO Limited, (the “**Auditor**”), to the amounts set out in the Company’s financial statements for the Year and the amounts were found to be in agreement.

The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standard on Review Engagements or International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by the Auditor.

As at the date of this announcement, the Audit and Risk Committee, which consists of three members, all of whom are independent non-executive Directors, has reviewed the Company’s Audited Year End Results. The Audit and Risk Committee is of the opinion that such financial statements comply with (i)

the applicable IFRSs, including all applicable individual IFRSs, IASs and interpretations issued by the IASB; and (ii) the Listing Rules and the Stock Exchange's legal requirements, and that adequate disclosures have been made.

### **EXTRACT OF INDEPENDENT AUDITORS' REPORT**

The following is an extract of the independent auditor's report on the Company's audited financial statements for the Year. The report includes paragraphs of material uncertainty related to going concern, without modification:

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

### **Material Uncertainty Related To Going Concern**

We draw attention to Note 3 to the financial statements, which indicates that as at December 31, 2022, the Company's current liabilities exceeded its current assets by C\$37.0 million, incurred a loss of C\$3.6 million for the year ended December 31, 2022. These conditions, along with other matters as set forth in Note 3 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **PUBLICATION OF INFORMATION**

This interim results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.jxenergy.ca](http://www.jxenergy.ca)). This announcement is prepared in both English and Chinese and in the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.

## SELECTED ABBREVIATIONS

In this MD&A, the abbreviations set forth below have the following meanings:

### Crude oil and natural gas liquids

Bbls/d or Bbl/d	barrels of oil per day
Bbls or Bbl	barrels of oil or barrel of oil
Boe	barrel of oil equivalent
Boe/d	barrel of oil equivalent per day
C\$/Bbl	Canadian dollars per barrel of oil
C\$/Boe	Canadian dollars per barrel of oil equivalent
Mbbls or Mbbl	thousand barrels
Mboe	thousand barrels of oil equivalent
Mbpd	thousand barrels per day
MMbbls	million barrels of oil
MMbbls/d	million barrels of oil per day
MMboe	million barrels of oil equivalent
MMboe/d	million barrels of oil equivalent per day
US\$/Bbl	US dollars per barrel of oil

### Natural gas

Bcf	billion cubic feet
Bcm	billion cubic meters
Cf	cubic feet
C\$/Mcf	Canadian dollars per thousand cubic feet
C\$/MMbtu	Canadian dollars per million British thermal units
GJ	gigajoule
GJ/d	gigajoules per day
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
Mcfe/d	thousand cubic feet of gas equivalent per day
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMcfe	million cubic feet of gas equivalent
MMcfe/d	million cubic feet of gas equivalent per day
tcf	trillion cubic feet
US\$/MMbtu	US dollars per million British thermal units

## Other

km	kilometres
km <sup>2</sup>	square kilometres
m	metres
m <sup>3</sup>	cubic meters
mg	milligrams
°C	degrees Celsius

## CONVERSION FACTORS — IMPERIAL TO METRIC

Bbl = 0.1590 cubic metres (m<sup>3</sup>)

Mcf = 0.0283 cubic metres (10<sup>3</sup>m<sup>3</sup>)

acres = 0.4047 hectares (ha)

Btu = 1054.615 joules (J)

feet (ft) = 0.3048 metres (m)

miles (mi) = 1.6093 kilometres (km)

pounds (Lb) = 0.4536 kilograms (kg)