

# **Silk Road Energy Inc.**

## **UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the three and nine months period ended June 30, 2022 and 2021**

*(Expressed in Canadian Dollars)*

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsequent 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the interim financial statements by an entity's auditor.

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**Silk Road Energy Inc.****UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION***(Expressed in Canadian Dollars)*

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	<b>June 30, 2022</b>	September 30, 2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 153	\$ 505
Accounts receivable	10,719	9,796
	<b>10,872</b>	10,301
Petroleum and natural gas assets held for sale (Note 5)	1	1
Petroleum and natural gas interests (Note 5)	-	-
Mineral properties and exploration and evaluation expenditures (Note 11)	385,421	-
<b>Total assets</b>	<b>\$ 396,294</b>	<b>\$ 10,302</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 585,055	\$ 639,355
Due to related party (Note 9)	3,018	-
Decommissioning liability (Note 6)	-	-
<b>Total liabilities</b>	<b>588,073</b>	639,355
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital (Note 7)	1,829,492	1,379,493
Contributed surplus	162,341	162,341
Deficit	(2,183,612)	(2,170,887)
<b>Total shareholders' deficiency</b>	<b>(191,779)</b>	<b>(629,053)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 396,294</b>	<b>\$ 10,302</b>

Going concern (Note 1)

Subsequent event (Note 13)

On Behalf of the Board of Directors

"Signed Paul Craig"

Director

"Signed Michael Judson"

Director

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*The accompanying notes form an integral part of these unaudited condensed interim financial statements.*

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**Silk Road Energy Inc.****UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS***(Expressed in Canadian Dollars)*

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	<b>For three months ended June 30, 2022</b>	For three months ended June 30, 2021	<b>For nine months ended June 30, 2022</b>	For nine months ended June 30, 2021
<b>Revenue</b>				
Petroleum and natural gas revenue, net of royalties	\$ -	\$ 995	\$ -	\$ 995
Other income	-	-	-	-
Royalty recoveries	-	-	-	-
	-	995	-	995
<b>Expenses</b>				
Operating costs	-	448	-	1,377
General and administrative	<b>3,060</b>	29,529	<b>19,600</b>	57,811
Depletion (Note 5)	-	1,448	-	4,344
Impairment (Note 5)	-	318	-	954
Accretion (Note 6)	-	319	-	957
	<b>3,060</b>	32,062	<b>19,600</b>	65,443
<b>Loss before other items</b>	<b>(3,060)</b>	(31,067)	<b>(19,600)</b>	(65,443)
<b>Other items</b>				
Gain on settlement of debts	-	-	<b>6,875</b>	-
<b>Net loss and comprehensive loss</b>	<b>(3,060)</b>	(31,067)	<b>(12,725)</b>	(64,448)
	\$		\$	
<b>Income (loss) per share</b>				
Basic and diluted	<b>(0.0002)</b>	(0.0025)	<b>(0.0007)</b>	(0.0053)
Weighted average number of common shares outstanding	<b>19,482,896</b>	12,012,788	<b>18,552,055</b>	12,012,788

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*The accompanying notes form an integral part of these unaudited condensed interim financial statements.*

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**Silk Road Energy Inc.****UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY***(Expressed in Canadian Dollars)*

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	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance at September 30, 2020</b>	<b>16,292,788</b>	<b>1,321,993</b>	<b>162,341</b>	<b>(2,311,075)</b>	<b>(826,741)</b>
Preferred shares issued	2,300,000	57,500	-	-	57,500
Net loss for the period	-	-	-	(55,935)	(55,935)
<b>Balance at June 30, 2021</b>	<b>18,592,788</b>	<b>1,321,993</b>	<b>162,341</b>	<b>(2,367,010)</b>	<b>(825,176)</b>
Net income for the period	-	-	-	196,123	196,123
<b>Balance at September 30, 2021</b>	<b>18,592,788</b>	<b>1,379,493</b>	<b>162,341</b>	<b>(2,170,887)</b>	<b>(629,053)</b>
Conversion of preferred shares	(6,580,000)	(164,500)	-	-	(164,500)
Issuance of common shares from conversion	6,580,000	164,500	-	-	164,500
Issuance of common shares to acquire mineral properties	8,999,983	449,999	-	-	449,999
Net loss for the period	-	-	-	(12,725)	(12,725)
<b>Balance at June 30, 2022</b>	<b>27,592,771</b>	<b>1,829,492</b>	<b>162,341</b>	<b>(2,183,612)</b>	<b>(191,779)</b>

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*The accompanying notes form an integral part of these financial statements.*

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**Silk Road Energy Inc.****UNAUDITED CONDENSED INTERIM STATEMENTS OF CASH FLOWS***(Expressed in Canadian Dollars)***For the nine months ended June 30,**

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	2022	2021
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (12,725)	\$ (64,066)
Depletion (Note 5)	-	4,344
Impairment (Note 5)	-	954
Accretion (Note 6)	-	957
Gain on settlement of debts	(6,875)	-
Change in working capital accounts:		
Account receivable	(923)	(1,126)
Accounts payable and accrued liabilities	(47,425)	(48,664)
<b>Cash (used in) provided by operating activities</b>	<b>(67,948)</b>	<b>(107,601)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of preferred shares	-	57,244
Due to related party	67,596	-
<b>Cash provided by financing activities</b>	<b>67,596</b>	<b>57,244</b>
<b>(Decrease) increase in cash</b>	<b>(352)</b>	<b>(50,357)</b>
<b>Cash, beginning of period</b>	<b>505</b>	<b>52,255</b>
<b>Cash, end of period</b>	<b>\$ 153</b>	<b>\$ 1,898</b>

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**Supplementary Information**

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Interest paid	\$ -	\$ -
Income tax paid	\$ -	\$ -
Shares issued to acquire mineral properties	\$ 449,999	\$ -
Waive of loan payable to related party	\$ 64,578	\$ -

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*The accompanying notes form an integral part of these financial statements.*

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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### 1. Nature of Operations and Going Concern

Silk Road Energy Inc. (the "Company") was incorporated under the laws of the Province of Alberta on November 9, 2010. The Company's principal business activity was the exploration, development and production of petroleum and natural gas assets in Alberta. During the year ended September 30, 2021, the Company is in the process of expanding into the business of exploration and development of mineral resource properties. The address of the registered head office is Suite 1900, 520 3<sup>rd</sup> Avenue SW, Calgary, AB T2P 0R3.

#### a) Going concern

The Company has been cease traded since August 9, 2019; however, the Alberta and Ontario Securities Commissions have revoked their respective cease trade orders against the Company effective October 1, 2021. During the period, the Company incurred net loss of \$12,725 (2021 – \$64,066), had accumulated a deficit of \$(2,183,612) (2021 - \$2,170,887) and no current sources of cash inflows. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Management has been and continues to be active in seeking alternative sources of funding to finance the expanded business of exploration and development of mineral resource properties. The Company is also looking for potential asset acquisitions that will generate future positive cash flows.

The Company's ability to continue as a going concern is dependent upon its ability to complete asset acquisitions, attain profitable operations, generate sufficient funds to commence its future operations to repay its debts as they come due, and continue to obtain sufficient capital from investors or other sources of financing to meet its current and future obligations. However, there is no assurance that these initiatives will close as anticipated, and the Company may require additional sources of financing.

These unaudited condensed interim financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these unaudited condensed interim financial statements.

#### b) COVID-19

Since 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, which may negatively impact the Company's business and financial condition.

### 2. Basis of Preparation

#### a) Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC"), in accordance with IAS 34 Interim Financial Reporting and in effect at October 1, 2021.

The unaudited condensed interim financial statements were authorized for issue by the Board of Directors on August 26, 2022.

#### b) Basis of measurement

These unaudited condensed interim financial statements have been prepared on a historical cost basis except for cash and share-based payment transactions which are measured at fair value.

### 2. Basis of Preparation (continued)

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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c) **Functional and presentation currency**

The unaudited condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) **Use of estimates and judgments**

The preparation of the Company's unaudited condensed interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the unaudited condensed interim financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and effect on unaudited condensed interim financial statements or changes in such estimates in future years could be material. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to estimates are recognized in the year in which the estimate is revised.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the unaudited condensed interim financial statements.

*Cash-generating-units ("CGUs") determination*

The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality. The Company has determined that at June 30, 2022 it has no (September 30, 2021 – no) CGUs.

*Oil & gas reserves*

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to prove and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gas interests. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of loss and comprehensive loss as further information becomes available and as the economic environment changes.

*Depletion*

Depletion of petroleum and natural gas interests is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of petroleum and natural gas interests including production equipment and facilities are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations.

The calculation of the unit-of-production rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

Changes in proved and probable reserves.

Changes in estimates of future development costs.

The effect on proved and probable reserves of differences between actual production as compared to forecasts as well as commodity price assumptions.

Unforeseen operational issues.

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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### 2. Basis of Preparation (*continued*)

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

##### *Impairment indicators*

The Company assesses its petroleum and natural gas (“P&NG”) interests for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company’s business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment of impairment for P&NG interests involves comparing the carrying value of the CGU with the higher of value in use and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids.

##### *Decommissioning obligations*

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

##### *Provision for expected credit losses*

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses (“ECL”) on receivables for which there has been a significant increase in credit risk since initial recognition. The Company measures expected credit losses based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

##### *Share based payments*

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company’s share price on the measurement date, the exercise price of the options, the expected volatility of the Company’s shares, expected life of the options, expected dividends, and the risk-free rate of return. The Company estimates volatility based on the historical volatility of similar entities following a comparable period in their lives. The expected life of the options is based on historical experience and estimates of the holder’s behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited, and the rate is adjusted to reflect the number of options that actually vest.

##### *Deferred taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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### 3. Significant Accounting Policies

The assessment of the Company's ability to execute its strategy by funding future working capital involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. There is a material uncertainty regarding the Company's ability to continue as a going concern. The Company's principal source of cash is from private placements. The Company is dependent on raising funds in order to have sufficient capital to be able to identify, evaluate and then acquire an interest in assets or a business.

#### a) Joint arrangements

The Company conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities.

Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

#### b) Financial instruments

i) The classification of financial assets is based on the Company's assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through other comprehensive income ("FVOCI"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss ("FVTPL"): assets that do not meet the criteria for amortized cost or FVOCI.

Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the statements of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the provision for expected credit losses.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Cash has been classified as FVTPL. Accounts receivable has been classified as amortized cost.

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### 3. Significant Accounting Policies (continued)

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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### b) Financial instruments (continued)

ii) Financial liabilities - The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in statement of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the statement of loss and comprehensive loss.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Accounts payable and accrued liabilities and due to related party have been classified as amortized cost.

### c) Revenue recognition

The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company principally generates revenue from the sale of commodities, which primarily consist of natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

### 3. Significant Accounting Policies (continued)

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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d) **Petroleum and natural gas (“P&NG”) interests**

P&NG interests are carried at cost, less accumulated depletion and accumulated impairment losses. The cost of an item of P&NG interests consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the period to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production.

These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&NG interests is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in loss in the period incurred.

e) **Mineral properties**

Pre-exploration costs or property investigation costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditures, in excess of estimated recoveries, are written off to income or loss.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. Exploration and evaluation assets are tested for impairment before the assets are transferred to development properties.

Ownership in mineral properties involves certain inherent risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristics of many mineral properties. The Company has investigated ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

When the Company’s exploration and development activities are conducted jointly with others, the unaudited condensed interim financial statements include only the Company’s proportionate interests in these arrangements.

f) **Impairment of assets**

***Non-financial assets***

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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At each financial reporting date, the carrying amounts of P&NG interests are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant view of the risks associated with the assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in net loss.

### g) Taxation

Tax expense is comprised of current and deferred tax expenses. Tax expense is recognized in net loss except to the extent that the tax expense related to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized using the liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

### h) Per share amounts

Basic loss per share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of "in-the-money" stock options and warrants would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow that are only released upon contingent events are not included in the calculation of the weighted average number of common shares.

## 3. Significant Accounting Policies (continued)

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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i) **Decommissioning liability**

The Company's activities give rise to dismantling, decommissioning and site remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using a market risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time is recognized as accretion expense, within financing fees, whereas increases or decreases due to changes in the estimated cost are capitalized as P&NG interests. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depleted on the same basis as the P&NG interests to which it relates.

j) **Contingencies**

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the financial statements.

k) **Share based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in net loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

l) **Equity instruments**

Common shares and preferred shares are presented in share capital within shareholders' equity. Incremental costs directly attributable to the issue of common shares and preferred shares are recognized as a deduction from share capital.

The company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market of shares issued, no value is assigned to the warrants. Any value attributed to the warrants is recorded as reserves. Warrants that are issued as payment to a finder or other transaction costs are accounted for as share-based payments. The Company does not measure the impact of modification to the terms of warrants previously issued.

#### 4. Accounting Pronouncements

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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a) **Future accounting pronouncements issued but not yet applied**

The International Accounting Standards Board (IASB) has issued a number of new standards to come into effect in future periods. The Company has determined that there is no update that are materially applicable or are consequential to the Company's unaudited condensed interim financial statements for its period ended June 30, 2022.

### 5. Petroleum and Natural Gas Interests

<b>Cost</b>	
<b>Balance, September 30, 2020</b>	<b>\$ 262,026</b>
De-recognition of petroleum and natural gas interests	<b>(262,025)</b>
<b>Balance, September 30, 2021 and June 30, 2022</b>	<b>\$ 1</b>
<b>Accumulated depletion and depreciation</b>	
<b>Balance, September 30, 2020</b>	<b>\$ 242,225</b>
Impairment	<b>1,272</b>
Depletion	<b>5,792</b>
De-recognition of petroleum and natural gas interests	<b>(249,289)</b>
<b>Balance, September 30, 2021 and June 30, 2022</b>	<b>\$ -</b>
Net book value, September 30, 2021	<b>\$ 1</b>
<b>Net book value, June 30, 2022</b>	<b>\$ 1</b>

During the year ended September 30, 2021, the Company intends to dispose of its petroleum and natural gas interests and enter into the business activities of exploration and development of natural mineral resources but did not formally enter into a transaction prior to the year ended September 30, 2021. The Company entered into a sale and purchase agreement to dispose of its only petroleum assets together with its related decommissioning liabilities and accounts payable to a party related by a common director in January of 2022. As the Company's intention is to execute the disposal prior to the year ended September 30, 2021, the Company has de-recognized the petroleum and natural gas interests, its related decommissioning liabilities and accounts payable as of September 30, 2021 and wrote down the petroleum and natural gas interests to \$1. As a result of this de-recognition, the Company recognized a total gain on de-recognition of petroleum & natural gas interests and associated liabilities in the amount of \$108,244 during the year ended September 30, 2021. There was no such gain on de-recognition during the period ended June 30, 2022.

### 6. Decommissioning Liability

<b>Balance at September 30, 2020</b>	<b>\$ 95,994</b>
Accretion	<b>1,268</b>
De-recognition of petroleum and natural gas interests and liabilities (Note 5)	<b>(97,262)</b>
<b>Balance at September 30, 2021 and June 30, 2022</b>	<b>\$ -</b>

As a result of de-recognition of the petroleum and natural gas interests, the associated decommissioning liabilities to the properties was also de-recognized and recognized a gain on removal of the decommissioning liabilities in the amount of \$97,262 during the year ended September 30, 2021, which was included in the statements of loss and comprehensive loss as gain on de-recognition of petroleum and natural gas assets and liabilities. There was no such gain on de-recognition during the period ended June 30, 2022.

### 7. Share Capital

a) Authorized

Unlimited number of common shares without par value

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

Unlimited number of preferred shares without par value

b) Issued – Common shares

	<i>Number of shares</i>	<i>Amount</i>
<b>Balance, September 30, 2020, and 2021</b>	<b>12,012,788</b>	<b>\$ 1,214,993</b>
<b>Conversion from preferred shares into common</b>	<b>6,580,000</b>	<b>164,500</b>
<b>Issuance of common shares to acquire mineral properties</b>	<b>8,999,983</b>	<b>449,999</b>
<b>Balance, June 30, 2022</b>	<b>27,592,771</b>	<b>\$ 1,829,492</b>

c) Issued – Preferred shares

	<i>Number of shares</i>	<i>Amount</i>
<b>Balance, September 30, 2020</b>	<b>4,280,000</b>	<b>\$ 107,000</b>
<b>Shares issued</b>	<b>2,300,000</b>	<b>57,500</b>
<b>Balance, September 30, 2021</b>	<b>6,580,000</b>	<b>164,500</b>
<b>Conversion from preferred shares into common</b>	<b>(6,580,000)</b>	<b>(164,500)</b>
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>\$ -</b>

The company issued 2,300,000 preferred share units consisting of one Class A Preferred share and a one half of one preferred share purchase warrant. Each warrant entitles the holder thereof to acquire one preferred share of the corporation at a price of \$0.10 for a period of twelve months following the closing date. At any time the Company may redeem the preferred shares into common shares for the redemption amount of \$0.025 per preferred share or convert the preferred shares into common share at a one to one ratio. In October 2021, 6,580,000 of the preferred shares have been converted into 6,580,000 common shares with no preferred shares remained unconverted. In June 2022, the Company issued 8,999,983 common shares at a fair value of \$0.05 per share in acquiring the Kirkland property claims (Note 11).

d) Warrants

	<i>Number of warrants</i>	<i>Weighted average exercise price (\$)</i>	<i>Amount (\$)</i>	<i>Weighted average expiry date (years)</i>
<b>Balance, September 30, 2020</b>	<b>2,140,000</b>	<b>0.10</b>	<b>-</b>	<b>0.76</b>
<b>Warrants expired</b>	<b>(2,140,000)</b>	<b>(0.10)</b>	<b>-</b>	<b>(0.76)</b>
<b>Warrants issued pursuant to private placement</b>	<b>1,150,000</b>	<b>0.10</b>	<b>-</b>	<b>1</b>
<b>Balance, September 30, 2021</b>	<b>1,150,000</b>	<b>0.10</b>	<b>-</b>	<b>0.41</b>
<b>No wararnts expired</b>	<b>(1,150,000)</b>	<b>-</b>	<b>-</b>	<b>(0.41)</b>
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

e) Share-based Compensation

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

There was no stock options issued and ourstading as at June 30, 2022 and September 30, 2021.

## 8. Financial Instruments and Risk Management

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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The Company's financial instruments are comprised of cash, accounts receivable and accounts payable and accrued liabilities. Fair values of financial instruments and discussion of risks associated with financial instruments are presented as follows:

### ***Fair value of financial instruments***

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – inputs to the valuation methodology are not based on observable market data.

Level 1 assumptions are used to value cash. The carrying value for cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and due to related party approximate their fair value due to the short-term nature of these financial instruments.

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed, and appropriate policies are in place and effective. Financial instruments present a number of specific risks. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: interest rate risk, commodity price risk and foreign currency risk. Other risks associated with financial instruments include credit risk and liquidity risk.

### ***Interest rate risk***

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has no financial instruments that create interest rate risk exposure.

### ***Commodity risk***

The nature of the Company's operations results in exposure to commodity price fluctuations. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the period ended June 30, 2022.

### ***Foreign Currency risk***

Prices for petroleum are determined in global markets and generally denominated in United States dollars. The Company had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies for the period ended June 30, 2022. An increase in the value of the Canadian dollar relative to the U.S. dollar decreases the revenues received from the sale of petroleum and natural gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar increases the revenues received from the sale of petroleum and natural gas commodities. The impact of such exchange rate fluctuations is not material.

### ***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's accounts receivable include trade accounts receivables from petroleum and natural gas marketers and goods and services tax receivable and are subject to normal credit risk. The maximum exposure to credit risk is calculated as the total value of accounts receivable as at June 30, 2022. Significant changes in industry conditions and risks that negatively impact customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies purchasing its oil and natural gas production as well as by the accounts receivable due from the government for goods and services tax receivable.

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# Silk Road Energy Inc.

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2022

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### 8. Financial Instruments and Risk Management (continued)

Accounts receivable consist mainly of GST receivable from the Government of Canada. The Company has been successful in recovering input tax credits and believes credit risk with respect to receivables to be insignificant.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages its cash inflows from operations and capital expenditures to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic environment.

The Company's financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities. Accounts payable consist of invoices payable to trade suppliers for general, administrative, royalty, production and capital expenditures and are usually payable in 30 to 90 days. All financial liabilities are current in nature.

### 9. Related party transactions

During the period ended June 30, 2022, management compensation of \$Nil (2021 - \$Nil) to a company owned by the CFO of the Company. All these transactions were entered into in the normal course of operations.

Key management include all officers and directors of the Company.

	2022	2021
Key management compensation	\$ -	\$ -

As at June 30, 2022, there was \$500,685 (2021 - \$515,685) to accounts payable and accruals to key management.

The Company also received advances from a company related by common directors in the amount of \$67,596 during the period ended June 30, 2022 (2021 - \$Nil). This loan was waived by this company in the amount of \$64,578 on June 20, 2022 as part of the acquisition of Kirkland property claims. As of June 30, 2022, the total amount outstanding owing to this company was \$3,018. This is a non-interest bearing, non-secured loan with no fixed terms of repayment.

### 10. Capital Management

The Company's policy is to maintain a strong and stable capital base for the objectives of maintaining financial flexibility, to sustain the development of the Company's current capital projects and for future development of the Company. The Company manages its capital structures and makes adjustments to it in light of changes in economic condition and risk characteristics of the underlying assets. The Company monitors its working capital and expected capital spending and issues share capital to manage its development plans. The Company is not subject to any externally imposed capital requirements.

The Company considers its capital structure to include shareholders' equity.

### 11. Mineral Properties and exploration and evaluation expenditures

The evaluation and exploration expenses for the Company are segregated as follows:

	June 30 2022	September 30 2021
Opening balance	\$ -	\$ -
Acquisition of Kirkland properties claims	449,999	-
Waive of loan payable	(64,578)	-
Total	\$ 385,421	\$ -

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# **Silk Road Energy Inc.**

## **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

*For the period ended June 30, 2022*

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### **11. Mineral Properties and exploration and evaluation expenditures (continued)**

In December 2021, the Company entered into an agreement to acquire from a company related by common directors 100 percent ownership of two mining concessions of gold and other precious metals claims located in the Kirkland Lake region of Ontario in return for 9 million shares of the Company at a price of \$0.05 per share. On June 21, 2022, the Company completed the acquisition of these claims and issued 8,999,983 common shares to the shareholders of the seller company at a fair value of \$0.05 per shares for total value of \$449,999. In relation to the acquisition of these claims, this seller company also waived the loan owing by the Company in the amount of \$64,578 and the value of the mineral property has been reduced by this same amount. As of June 30, 2022, the value of this Kirkland mineral property was at \$385,421.

The property claims acquired is subject to a 2% NSR from the previous owner upon commencement of production of these claims and the Company has the right to purchase the NSR from the previous owner for \$2,000,000.

### **12. Sale of petroleum and natural gas interests**

In January 2022, the Company sold its petroleum and natural gas interests, its associated decommissioning liabilities and assigned its related accounts payable owing to the operator of the property to a company related by a common director of the Company for \$10.

### **13. Subsequent events**

On July 5, 2022, the Company received approval from the TSXV to have its shares reactivated as a Tier 2 Mining Issuer from a NEX Issuer. On July 7, 2022, the Company commenced trading under the symbol "SLK" on the TSXV.

On August 10, 2022, the Company added 11 gold exploration claims, known as Kenogami East, in the Kirkland Lake area to its portfolio. The Company also closed on gross proceeds of \$29,000 through the issuance of 483,333 common shares at \$0.06 per share and 483,333 share purchase warrants exercisable at \$0.12 per share for one year, increasing its issued and outstanding shares to 28,076,104.