

Financial Statements of

**Pinedale Energy Limited**

Years ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

# Independent Auditor's Report

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To the Shareholders of Pinedale Energy Limited

## Opinion

We have audited the financial statements of Pinedale Energy Ltd. and its subsidiaries (the "Company"), which comprise the statements of financial position as at December 31, 2021 and December 31, 2020, and the statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2021 and, as at that date, had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian Generally Accepted Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Vancouver, British Columbia

April 25, 2022

*MNP LLP*

Chartered Professional Accountants

# Pinedale Energy Limited

## Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2021	December 31, 2020
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 744	\$ 29,661
GST receivable	727	1,146
Prepaid expense	-	61,250
<b>Total assets</b>	<b>\$ 1,471</b>	<b>\$ 92,057</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 124,847	\$ 114,739
Promissory note (Note 6)	126,943	95,490
<b>Total liabilities</b>	<b>251,790</b>	<b>210,229</b>
<b>Shareholders' deficiency</b>		
Share capital (Note 8)	5,319,746	5,319,746
Equity reserve (Note 8)	711,932	711,932
Deficit	(6,281,997)	(6,149,850)
<b>Total shareholders' deficiency</b>	<b>(250,319)</b>	<b>(118,172)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 1,471</b>	<b>\$ 92,057</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 15)

Approved by the Board of Directors and authorized for issue on April 25, 2022:

\_\_\_\_\_  
"Claus Andrup" Director

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"Scott Young" Director

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

# Pinedale Energy Limited

## Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Years ended	
	December 31, 2021	December 31, 2020
<b>Expenses</b>		
Consulting fees	\$ -	\$ 3,000
Director fees	28,710	23,484
Office and administration	1,121	6,068
Professional services	87,618	96,655
Regulatory and filing	11,056	20,308
Share-based compensation (Note 8(c) and 9)	-	23,091
	<b>(128,505)</b>	<b>(172,606)</b>
<b>Other items</b>		
Foreign exchange loss	(3,642)	(2,286)
Interest expense (Notes 6, 7 and 9)	-	(160,414)
Net gain on disposal of subsidiary (Note 14)	-	242,211
	<b>(3,642)</b>	<b>79,511</b>
<b>Net loss from continuing operations</b>	<b>\$ (132,147)</b>	<b>\$ (93,095)</b>
Loss from discontinued operations (Note 14)	-	(147,281)
<b>Net loss</b>	<b>\$ (132,147)</b>	<b>\$ (240,376)</b>
<b>Other comprehensive loss</b>		
Exchange differences from translation of foreign operations	-	(732,774)
<b>Net loss and comprehensive loss</b>	<b>\$ (132,147)</b>	<b>\$ (973,150)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>112,472,114</b>	<b>112,472,114</b>

The accompanying notes are an integral part of these financial statements

# Pinedale Energy Limited

## Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital				Accumulated other comprehensive income (loss)	Total shareholders' equity (deficiency)
	Shares issued	Amount	Equity reserve	Deficit		
<b>Balance, December 31, 2019</b>	112,472,114	\$ 5,319,746	\$ 688,841	\$ (5,909,474)	\$ 732,774	\$ 831,887
Share-based compensation	-	-	23,091	-	-	23,091
Net loss and comprehensive loss	-	-	-	(240,376)	(732,774)	(973,150)
<b>Balance, December 31, 2020</b>	112,472,114	5,319,746	711,932	(6,149,850)	-	(118,172)
Net loss and comprehensive loss	-	-	-	(132,147)	-	(132,147)
<b>Balance, December 31, 2021</b>	<b>112,472,114</b>	<b>\$ 5,319,746</b>	<b>\$ 711,932</b>	<b>\$ (6,281,997)</b>	<b>\$ -</b>	<b>\$ (250,319)</b>

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

# Pinedale Energy Limited

## Statements of Cash Flows

(Expressed in Canadian dollars)

	Years ended	
	December 31, 2021	December 31, 2020
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss from continuing operations	\$ (132,147)	\$ (93,095)
Net loss from discontinued operations	-	(147,281)
Net loss	(132,147)	(240,376)
Items not affecting cash:		
Depletion (Note 4)	-	661,099
Share-based compensation (Note 8(c) and 9)	-	23,091
Non-cash portion of interest expense	-	85,482
Net liabilities on disposal of subsidiary	-	(480,411)
Changes in non-cash working capital items:		
GST receivable and prepaids	61,669	(50,888)
Accounts payable and accrued liabilities	10,108	62,583
Promissory note (Note 6)	31,453	-
	(28,917)	60,580
<b>Investing activities</b>		
Investment in oil and gas properties (Note 4)	-	(26,428)
	-	(26,428)
<b>Financing activities</b>		
Funds paid on promissory note (Note 6)	-	(547,509)
Repayment on long-term debt (Note 7)	-	(204,420)
	-	(751,929)
<b>Change in cash</b>	<b>(28,917)</b>	<b>(717,777)</b>
<b>Cash, beginning of the year</b>	<b>29,661</b>	<b>747,438</b>
<b>Cash, end of the year</b>	<b>\$ 744</b>	<b>\$ 29,661</b>

During the year ended December 31, 2021, \$nil cash was paid for interest (2020: \$237,754).

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

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Pinedale Energy Limited (“Pinedale” or the “Company”) was incorporated under the British Columbia Business Corporations Act on December 17, 2007. The Company is a junior resource company previously engaged in the identification, and the exploration and development, of both proven and unproven reserves via drilling and/or acquisition with a focus on the State of Wyoming, U.S.A. The address of the Company's registered office is 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3. The Company is trading on the Toronto Stock Exchange Venture (“TSX-V”) under the trading symbol “MCF”.

On July 31, 2020, the Company sold its interest in its wholly-owned subsidiary companies with the result that the Company's oil and gas assets and related liabilities were disposed of. The comparative financial statements include the consolidated results of the subsidiaries to the date of disposition.

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation in the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At December 31, 2021, the Company had cash of \$744 (December 31, 2020 - \$29,661) and working capital deficiency of \$250,319 (December 31, 2020 – \$118,172). The Company currently has no active business and is not generating any revenues. It has frequently incurred losses and negative cash flows from operations since inception and had an accumulated deficit of \$6,281,997 as at December 31, 2021 (December 31, 2020 – \$6,149,850). Whether and when the Company can obtain profitability and positive cash flows from operations is uncertain. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

In March 2020, the World Health Organization declared a global pandemic related to the virus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. To date there have been significant effects on the world's equity markets and the movement of people and goods has become restricted. Due to market uncertainty, the Company may be restricted in its ability to raise additional funding. The current circumstances of COVID-19 are dynamic and management is closely evaluating the impact of COVID-19 on the Company's business operations. The impact of COVID-19 could have a material adverse effect on the Company's financial position, results of operations and cash flows in future periods.

In recognition of these circumstances, management is pursuing business opportunities. There is no assurance that these initiatives will be successful. In the future, the Company may raise additional financing through the issuance of share capital or shareholder loans, however, there can be no assurance that it will be successful in its efforts to do so and that the terms will be favourable to the Company. These circumstances indicate material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of generally accepted accounting principles applicable to a going concern.

These financial statements do not include any adjustments to the carrying values of assets and liabilities, the reported expenses and statement of financial position classifications that might be necessary should the Company be unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

### 2. BASIS OF PRESENTATION

#### (a) *Statement of compliance*

These financial statements as at and for the year ended December 31, 2021, including comparatives, are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements were approved by the board of directors on April 25, 2022.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 2. BASIS OF PRESENTATION (Continued)

#### (b) *Basis of measurement*

These financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### (c) *Basis of consolidation*

The consolidated financial statements for the year ended December 31, 2020 included the financial statements of the Company and its wholly-owned controlled US subsidiary, Pinedale Energy Inc., as well as the Company's wholly-owned Canadian subsidiary 0970831 B.C. Ltd. up until their disposal on July 31, 2020. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances have been eliminated upon consolidation. The financial statements of the subsidiaries were included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (d) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates in (the "functional currency"). The financial statements for the year ended December 31, 2021 are presented in Canadian dollars.

The consolidated financial statements for the year ended December 31, 2020 were presented in Canadian dollars, which was the functional currency of Pinedale Energy Ltd. and 0970831 BC Ltd. The functional currency of Pinedale Energy Inc., was the US dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the transaction dates. All assets and liabilities are translated into the presentation currency using the exchange rate in effect on the reporting date, shareholders' equity accounts are translated using the historical rates of exchange and revenue and expenses are translated at the average rate for the year. Exchange gains and losses on translation are included as a separate component of accumulated other comprehensive income.

#### (e) *Significant accounting judgments and estimates*

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

#### Critical judgment

The Company's financial statements have been prepared on the assumption that the Company will continue as a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business (Note 1). In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company incurred a net loss of \$132,147 for the year ended December 31, 2021, and as of that date, the Company had a deficit of \$6,281,997 and working capital deficiency of \$250,319. The Company has no source of revenue and does not have sufficient cash to meet its debts and administrative overhead. The continuity of the Company's operations is dependent on the ability to raise equity capital or borrowings sufficient to meet current and future obligations.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 2. BASIS OF PRESENTATION (Continued)

#### (e) *Significant accounting judgments and estimates (Continued)*

##### Key sources of estimation uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the Company's financial statements include:

##### *Deferred tax assets & liabilities*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

##### *Share-based compensation*

Compensation costs accrued for under the Company's Stock Option plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of Pinedale's shares.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these financial statements are described below:

#### *a. Joint interests*

A portion of the Company's exploration, development and production activities were conducted jointly with others through unincorporated joint ventures. The consolidated financial statements for the year ended December 31, 2020 reflect only the Company's proportionate interest of these joint operations and the proportionate share of the relevant revenue and related costs.

#### *b. Cash*

Cash consists of deposits held in banks. The Company places its cash with institutions of high-credit worthiness.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *c. Financial instruments*

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments. Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and,
- Level 3 inputs are unobservable inputs for the asset or liability.

#### *Classification and measurement of financial assets*

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

**Amortized Cost:** Includes 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 represent solely payments of principal and interest. Financial instruments under this classification include cash;

**Fair Value through Other Comprehensive Income ("FVOCI"):** Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or,

**Fair Value Through Profit or Loss ("FVTPL"):** Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in the consolidated statement of income (loss) and comprehensive income (loss).

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *c. Financial instruments (Continued)*

##### *Impairment of financial assets*

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

##### *Classification and measurement of financial liabilities*

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

The Company's financial liabilities which consist primarily of accounts payable and accrued liabilities, and promissory note are classified as and measured at amortized cost.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in the consolidated statement of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Any gain or loss on derecognition is also recognized in the consolidated statement of income (loss) and comprehensive income (loss).

#### *d. Share capital*

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds.

#### *e. Share-based compensation*

Share-based compensation to non-employees are measured at fair value of goods and services received or the fair value of the equity instrument issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

Share-based compensation to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. The corresponding amount is recorded in contributed surplus.

The fair value of options are determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest are reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts are transferred to share capital.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *e. Share-based compensation (Continued)*

During the year ended December 31, 2021, the Company had no share-based compensation (2020: \$23,091).

#### *f. Related party transactions*

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties subject to common control are also considered to be related. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### *g. Provisions*

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations and it is probable that there will be a requirement to settle. The provision is measured at the best estimate of the present value of the amount required to settle the obligation using a pre-tax rate reflecting current market assessment, the time value of money and the risk specific to the obligation. Future increases resulting from the passing of time will be recognized as an accretion expense.

#### *h. Loss per share*

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

#### *i. Income taxes*

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the consolidated statement of income (loss) and comprehensive income (loss) except to the extent that it relates to a business combination, or to items recognized directly in equity.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, 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.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *i. Income taxes (Continued)*

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

#### *j. Recent accounting standards*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC.

The following amendments are effective for the period beginning January 1, 2023:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
  - In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument.
- Definition of Accounting Estimates (Amendments to IAS 8)
  - In February 2021, the IASB issued amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors, in which it introduces a new definition of 'accounting estimates'. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors

The Company is currently assessing the impact of these accounting standards and amendments. The Company does not believe that these amendments will have a significant impact on its financial statements.

### 4. OIL AND GAS PROPERTIES

The Company's oil and gas assets comprised seventeen leases in Sublette County in the State of Wyoming. In July 2020, the Company completed the sale of its wholly-owned subsidiary, 0970831 B.C. Ltd., and its indirect wholly-owned subsidiary, Pinedale Energy Inc., which holds the oil and gas assets, pursuant to a Share Transfer and Assignment Agreement. (Note 14)

The carrying values of the oil and gas assets were as follows:

Balance, December 31, 2019	\$ 10,755,878
Additions	26,428
Depletion	(661,099)
Reporting currency translation adjustment	354,939
Balance, July 31, 2020	10,476,146
Disposition	(10,476,146)
Balance, December 31, 2020 and 2021	\$ -

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

### 5. DECOMMISSIONING LIABILITY

During the year ended December 31, 2020, the Company estimated the total undiscounted amount of cash flow required to settle its decommissioning obligation is approximately \$1,034,739. All decommissioning liabilities were eliminated upon sale of the Company's subsidiaries on July 31, 2020 (Note 14).

Balance, December 31, 2019	\$	912,655
Accretion of discount		1,316
Reporting currency translation adjustment		29,432
Balance, July 31, 2020		943,403
Disposition		(943,403)
Balance, December 31, 2020 and 2021	\$	-

### 6. PROMISSORY NOTE

On September 16, 2020, the Company executed a promissory note of US\$75,000 to Flavocure Biotech, Inc. to secure short-term financing for working capital purposes related to the terminated Merger Agreement (Note 15). During the year ended December 31, 2021, additional promissory note of \$25,042 was issued. The note is unsecured, interest free and was repayable on July 31, 2021. The Company is currently negotiating on the settlement of the promissory note.

On September 1, 2017, the Company executed a promissory note to secure a loan advance of \$4,000,000. The promissory note payable was secured against the assets of the Company, bears interest at a rate of 10% per annum which can be repaid at any time without penalty with a maturity date of September 1, 2021. During the year ended December 31, 2020, the Company made principal repayments of \$643,000. In addition, during the year ended December 31, 2020, the Company recognized \$72,639 and \$85,482 of interest expense and accretion, respectively. As at July 31, 2020, the Company had \$2,676,520 outstanding on the note. The note was assumed by the purchasers of the Company's subsidiaries at the time of disposition (Note 14).

### 7. LONG-TERM DEBT

On June 30, 2015, the Company's wholly owned subsidiary, Pinedale Energy Inc., entered into a US\$25 million revolving credit facility with CrossFirst Bank. The amount available under these facilities ("Collateral Borrowing Base") is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the lending institution's forecast commodity prices, the current economic environment and other factors. As at July 31, 2020 the Collateral Borrowing Base was US\$6.0 million.

At July 31, 2020, the Company had a balance due of \$6,031,800 (US\$ 4,500,000) under its existing credit facility. The liability remained with the Company's subsidiary when it was sold, resulting in a balance owing of \$nil at December 31, 2020 (Note 14).

### 8. EQUITY

#### (a) Authorized

Unlimited number of voting Class A common shares with no par value.

Unlimited number of voting Class B common shares with no par value.

#### (b) Issued and fully paid common shares

As at December 31, 2020 and 2021, there were 112,472,114 Class A shares outstanding and no Class B shares outstanding.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

### 8. EQUITY (Continued)

#### (c) Share options

The Company has a 20% fixed share option plan under which share options to purchase common shares of the Company may be granted to directors, officers and consultants.

There were no share options granted during the year ended December 31, 2021 and 2020.

During the year ended December 31, 2017, the Company granted 1,314,064 share options with an exercise price of \$0.26 and an expiry date of June 26, 2022. In connection with this grant the company recorded a share based compensation expense of \$nil during the year ended December 31, 2021 (December 31, 2020 – \$23,091). During the year ended December 31, 2020, these options were cancelled.

A summary of the changes in share options is presented below:

	Options Outstanding	Weighted average exercise price
Balance, December 31, 2019	1,314,064	\$ 0.26
Cancelled	(1,314,064)	0.26
Balance, December 31, 2020 and 2021	-	\$ -

There were no share options outstanding and exercisable at December 31, 2021.

#### (d) Warrants

A summary of changes in warrants is presented below:

	Warrants outstanding	Weighted average exercise price
Balance, December 31, 2019 and 2020	10,999,999	\$ 0.31
Expired	(999,999)	0.26
Balance, December 31, 2021	10,000,000	\$ 0.31

The following is a summary of warrants outstanding and exercisable at December 31, 2021:

Outstanding and exercisable	Exercise price	Expiry date
5,000,000	\$ 0.26	June 26, 2022
5,000,000	\$ 0.36	October 26, 2022
10,000,000		

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

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### 9. RELATED PARTY TRANSACTIONS

Transactions with related parties and key management personnel were in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

	Years ended December 31,	
	2021	2020
Interest on promissory notes	\$ -	\$ 72,639
Consulting fees	-	84,000
Directors' fees	28,710	27,484
Share-based compensation	-	15,394
	\$ 28,710	\$ 199,517

The \$4,000,000 promissory note described in Note 6 was payable to two former Directors of the Company. The promissory note was payable at agreed upon terms and was settled during the year ended December 31, 2020. During the year ended December 31, 2021, the Company paid \$nil (2020 – \$72,639) in interest on the promissory note. No additional promissory note was issued to key management during the year ended December 31, 2021.

As at December 31, 2021, accounts payable and accrued liabilities included \$54,603 (2020 - \$24,658) payable to these related parties.

### 10. INCOME TAX

#### Income tax expense

The following table reconciles the expected income tax expense at the Canadian statutory income tax rate to the amounts recognized in the statement of loss and comprehensive loss for the year ended December 31, 2021 and 2020.

	2021	2020
	\$	\$
Net income before tax	(132,146)	(240,376)
Statutory tax rate	27.00%	27.00%
Expected income tax expense (recovery)	(35,679)	(64,902)
Non-deductible (taxable) items	(3,720)	17,365
Change in estimates	-	(365)
Foreign exchange and other	(502)	9,991
Settlement of intercompany balances	-	(402,141)
Foreign tax rate difference	-	10,081
Change in deferred tax asset not recognized	39,901	429,971
Income tax expense (recovery)	-	-

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

### 10. INCOME TAX (CONTINUED)

#### Deferred tax liabilities

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes.

Details of deferred tax assets (liabilities) are as follows:

#### Canada

	2021	2020
Deferred tax assets (liabilities)	\$	\$
Non-capital losses	-	48,729
Capital losses	-	47,795
Intercompany balances	-	(47,795)
Promissory note	-	(48,729)
Net deferred tax asset (liability)	-	-

The unrecognized deductible temporary differences are as follows:

	2021	2020
<b>Canada</b>	<b>\$</b>	<b>\$</b>
Non-capital losses	427,092	108,120
Promissory note	3,720	-
Financing costs	-	2,626
Capital losses	2,978,820	2,624,786
Unrecognized deductible temporary differences	3,409,632	2,735,532

As at December 31, 2021, the Company has not recognized a deferred tax asset in respect of capital loss carryforwards of approximately \$2,978,820 (2020: \$2,624,786) which may be carried forward indefinitely to apply against taxable capital gains in future years for Canadian income tax purposes, subject to the final determination by taxation authorities. The Company has not recognized a deferred tax asset in respect of non-capital loss carryforward of approximately \$2,071,231 (2020: \$108,120) which expire from 2037 to 2041 for Canadian income tax purposes, subject to the final determination by taxation authorities.

### 11. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets. Refer to Note 1 for additional details of the Company's ability to continue as a going concern. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis. During the year ended December 31, 2021, there has been no change in the Company's management of capital policies.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 12. FINANCIAL INSTRUMENTS

#### *Financial Risk Management*

Cash, accounts payable and accrued liabilities, and promissory notes are held at amortized cost which approximates fair value due to the short-term nature of these instruments.

#### *Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

#### *Credit Risk*

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company is exposed to credit risk on cash. The Company reduces its credit risk on cash by maintaining its bank account with a large international financial institution. The maximum exposure to credit risk is equal to the carrying value of its cash and amounts receivable.

#### *Liquidity Risk*

At December 31, 2021, the Company had cash of \$744 to settle current liabilities of \$251,790, and had a working capital deficit of \$250,319. Management has concluded that the Company does not have adequate financial resources to settle obligations as at December 31, 2021, and will require additional funding to continue operations for the next twelve months (Note 1).

#### *Market Risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity prices, and equity prices:

##### *I. Interest Rate Risk*

The Company has no exposure to interest rate risk since disposing of its subsidiaries. All interest bearing debt was assumed by the subsidiaries.

##### *II. Foreign Exchange Risk*

Foreign exchange risk arises from the changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. The Company's exposure to foreign exchange risk since the disposition of its investments in its subsidiaries is minimal.

##### *III. Equity Price Risk*

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

### 13. SEGMENT INFORMATION

The Company has no operating activities and as at December 31, 2020 and 2021, the Company did not have any reportable operating segments as a result of the sale of its subsidiaries (Note 14).

### 14. DISPOSITION OF WHOLLY-OWNED ENTITIES

In July 2020, the Company completed the sale of its wholly-owned subsidiary, 0970831 B.C. Ltd., and its indirect wholly-owned subsidiary, Pinedale Energy Inc., which holds the oil and gas assets, pursuant to a Share Transfer and Assignment Agreement. Pursuant to the terms and conditions of the Share Transfer Agreement: (i) all of the issued and outstanding shares of 0970831 B.C. Ltd. were transferred to the purchasers; and (ii) all outstanding indebtedness of the Company owed to the purchasers, and all indebtedness owed to the Company by the Company's indirect wholly-owned subsidiary Pinedale Energy Inc., was assigned to and assumed by 0970831 B.C. Ltd.

During the year ended December 31, 2020, the Company reported a net gain on disposal of its subsidiaries of \$242,211 comprised of the following:

Net assets disposed of	\$ (9,409,512)
Promissory note payable assumed by purchaser	2,676,520
Loan liability assumed by purchaser	6,031,800
Decommissioning liability assumed by purchaser	943,403
Net gain on disposal	\$ 242,211

Below summarizes the results of discontinued operations of the Company's interest in its Oil and Gas subsidiaries for the year ended December 31, 2020.

	Year ended December 31, 2020 \$
<b>REVENUE</b>	
Natural gas sales	1,973,557
Royalties	(632,037)
<b>Net oil and gas revenue</b>	<b>1,341,520</b>
<b>OPERATING EXPENSE</b>	
Consulting fees	8,422
Depletion	661,099
Production tax	(327,936)
Gathering	299,440
Lease operating	356,540
Transportation	15,772
	<b>1,013,337</b>
	<b>328,183</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	
Administration services	204,203
Consulting fees	104,439
Director's fees	4,000
Interest	162,822
	<b>475,464</b>
<b>NET LOSS BEFORE TAXES</b>	<b>(147,281)</b>
Income tax recovery	-
Deferred tax recovery	-
<b>NET LOSS FROM DISCONTINUED OPERATIONS</b>	<b>(147,281)</b>

# Pinedale Energy Limited

## Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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### 14. DISPOSITION OF WHOLLY-OWNED ENTITIES (CONTINUED)

The net cash flows used in discontinued operations during the years ended December 31, 2020 were (\$429,225). The breakdown of the net cash flows used in discontinued operations for the year ended December 31 2020 is as follows:

	Year ended December 31, 2020
Operating activities	\$ (7,705)
Investing activities	(338,529)
Financing activities	(82,991)
Net cash flows used in discontinued operations	\$ (429,225)

### 15. SUBSEQUENT EVENTS

On October 6, 2020 the Company announced that it had executed a definitive merger agreement with Flavocure Biotech, Inc. ("Flavocure"), and entered into an engagement letter (the "Engagement Letter") with Leede Jones Gable Inc. in respect of a proposed offering by Pinedale of subscription receipts pursuant to which Pinedale will raise gross proceeds of up to \$3,000,000, subject to a minimum offering of \$1,500,000.

Further to the letter of intent entered into on May 19, 2020, the Company entered into a binding merger agreement (the "Merger Agreement") with Flavocure and Pinedale USA Inc. ("Pinedale Sub") a wholly-owned subsidiary of the Company, in respect of a statutory merger under the Delaware General Corporation Law (the "Proposed Transaction"). Upon completion of the Proposed Transaction, the resulting company (the "Resulting Issuer") would continue to carry on the business of Flavocure, was expected to change its name to "Flavocure Biotech, Inc." and was expected to remain listed on the TSX-V.

Pursuant to the Merger Agreement, Pinedale was required to implement a 10:1 consolidation of its outstanding Common Shares. Thereafter, Flavocure would merge with Pinedale Sub, and the shareholders of Flavocure would receive post-consolidation Common Shares of the Resulting Issuer based upon the exchange ratio, which was 65 post-consolidation Common Shares for each share of common stock of Flavocure. Certain convertible notes issued by Flavocure would be automatically converted into Flavocure common stock in connection with the Proposed Transaction. The board of directors and officers of the Resulting Issuer would be changed to appoint nominees determined by Flavocure.

On February 15, 2022, the Company received formal notice that Flavocure had terminated the agreement with respect to a proposed business combination between the Company and Flavocure. As a result of the termination, \$61,250 of prepaid expenses at December 31, 2020 were amortized to legal expenses during the year ended December 31, 2021. As at December 31, 2021, \$126,943 of promissory note owing to Flavocure is payable on demand. The Company is currently negotiating on repayment terms.