

ORACLE ENERGY CORP.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ORACLE ENERGY CORP.

Opinion

We have audited the financial statements of Oracle Energy Corp. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of operations and comprehensive loss for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in equity (deficiency) for the years then ended; and
- the 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 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 *Auditors' 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 audit 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 in our audits 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 of \$319,945 during the year ended December 31, 2021 and, as of that date, the Company has a deficit of \$27,386,157. 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 audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, 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.

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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 IFRS, 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.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report Kevin Kwan.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 5, 2022

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ORACLE ENERGY CORP.

STATEMENTS OF FINANCIAL POSITION (Expressed in Canadian Dollars)

		DECEMBER 31	
	Note	2021	2020
ASSETS			
Current			
Cash		\$ 503,525	\$ 40,324
Amounts receivable		5,205	164
Notes receivable	4	10,000	-
Total Assets		\$ 518,730	\$ 40,488
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 166,262	\$ 205,652
Notes payable	5	45,283	70,896
Due to related parties	6	55,206	62,569
Total current liabilities		266,751	339,117
Notes payable	5,6	233,425	304,912
Total liabilities		500,176	644,029
EQUITY (DEFICIENCY)			
Share capital	7	22,426,336	21,930,458
Reserves		4,978,375	4,532,213
Deficit		(27,386,157)	(27,066,212)
Total equity (deficiency)		18,554	(603,541)
Total liabilities and equity (deficiency)		\$ 518,730	\$ 40,488

These financial statements were authorized for issuance by the Board of Directors on April 5, 2022. They are signed on behalf of the Board of Directors by:

"Loren Currie"

Director

"James Ladner"

Director

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

ORACLE ENERGY CORP.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2021	2020
Expenses		
Advertising and communications	\$ 2,532	\$ 845
Accretion (Note 5)	17,938	1,164
Bank charges and interest	772	712
Consulting (Note 6)	217,500	-
Foreign exchange loss (gain)	22	(469)
Office	16,324	5,838
Professional fees (Note 6)	45,540	41,920
Regulatory and listing fees	10,022	7,979
Salaries and benefits (Note 6)	16,082	15,000
Transfer agent fees	16,196	3,421
	342,928	76,410
Loss before other income (loss)	(342,928)	(76,410)
Other income (loss)		
Gain on debt settlement	-	38,929
Gain on write-down of accounts payable	22,983	-
Loss on write-down of exploration and evaluation assets	-	(15,442)
	22,983	23,487
Net loss and comprehensive loss for the year	\$ (319,945)	\$ (52,923)
Basic and diluted loss per share	\$ (0.02)	\$ (0.00)
Weighted Average Number Of Common Shares		
Outstanding ⁽¹⁾	16,532,980	13,464,487

- (1) On June 17, 2021, the Company announced the completion of a share consolidation on a 5:1 basis. The Basic and Diluted Loss Per Share and the Weighted Average Number of Common Shares Outstanding has been retroactively restated to reflect the results of the share consolidation.

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

ORACLE ENERGY CORP.

STATEMENTS OF CASH FLOWS (Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2021	2020
Cash flows provided by (used for):		
Operating activities		
Net loss for the year	\$ (319,945)	\$ (52,923)
Items not affecting cash:		
Accretion	17,938	1,164
Foreign exchange	(64)	-
Gain on debt settlement	-	(38,929)
Gain on write-down of accounts payable	(22,983)	-
Loss on write-down of exploration and evaluation assets	-	15,442
Net change in non-cash working capital items:		
Amounts receivable	(5,041)	(164)
Notes receivable	(10,000)	-
Accounts payable and accrued liabilities	(16,407)	(31,200)
Due to related parties	(7,363)	73,817
	(363,865)	(32,793)
Financing activity		
Proceeds from shares issued for cash (Note 8)	1,000,000	-
Share issue costs	(57,960)	-
Cash received from notes payable	2,000	63,000
Repayment of notes payable	(116,974)	-
	827,066	63,000
Net increase in cash	463,201	30,207
Cash, beginning of year	40,324	10,117
Cash, end of year	\$ 503,525	\$ 40,324

The accompanying notes are an integral part of these financial statements

ORACLE ENERGY CORP.

STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY) (Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	SHARE CAPITAL		RESERVES	DEFICIT	TOTAL EQUITY (DEFICIENCY)
	NUMBER (1)	AMOUNT			
Balance, December 31, 2019	13,464,487	\$ 21,930,458	\$ 4,532,213	\$ (27,013,289)	\$ (550,618)
Net loss for the year	-	-	-	(52,923)	(52,923)
Balance, December 31, 2020	13,464,487	21,930,458	4,532,213	(27,066,212)	(603,541)
Shares issued in private placements	10,000,000	1,000,000	-	-	1,000,000
Share issue costs	-	(57,960)	-	-	(57,960)
Fair value of warrants issued	-	(379,604)	379,604	-	-
Fair value of agent warrants issued	-	(66,558)	66,558	-	-
Net loss for the year	-	-	-	(319,945)	(319,945)
Balance, December 31, 2021	23,464,487	\$ 22,426,336	\$ 4,978,375	\$ (27,386,157)	\$ 18,554

⁽¹⁾ On June 17, 2021, the Company announced the completion of a share consolidation on a 5:1 basis. The Number of shares outstanding has been retroactively restated to reflect the results of the share consolidation.

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

ORACLE ENERGY CORP.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Oracle Energy Corp. (the “Company”) was incorporated on October 2, 1985 under the Business Corporations Act of British Columbia and is in the business of acquiring, exploring and evaluating oil and gas properties and developing these properties further or disposing of them when the evaluation is completed.

The address of the Company, the principal place of business and the registered and records office is located at Suite 1500 – 1040 West Georgia Street, Vancouver, British Columbia, Canada.

To date, the Company has not earned significant revenues. During the year ended December 31, 2021, the Company recorded net loss of \$319,945 (2020 - \$52,923) and as of that date, the Company’s working capital is \$251,979 (2020 - working capital deficiency of \$298,629). As at December 31, 2021, the Company has an accumulated deficit of \$27,386,157 (2020 - \$27,066,212). The Company’s operations are primarily funded with debt or equity financing, which is dependent upon many external factors and may be difficult to raise when required. The Company does not have sufficient cash to fund current operations, amounts payable, or amounts required to complete planned acquisitions and will require additional funding, which if not raised, may result in the delay, postponement or curtailment of some of its activities.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Governments worldwide have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness making it difficult to raise capital in the public markets. As at December 31, 2021, the Company does not have any operations impacted by COVID-19. It is not possible at this time for the Company to predict the duration or magnitude of the adverse results of the outbreak nor its effects on the Company’s business or operations.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume the realization of assets and discharge of liabilities in the normal course of business. However, the above factors may cast significant doubt on the use of the going concern basis of accounting used in the preparation of these financial statements. These financial statements do not give effect to adjustments that would be necessary should the Company not be able to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

a) Statement of Compliance

The financial statements of the Company for the years ending December 31, 2021 and 2020 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 International Financial Reporting Interpretations Committee (“IFRIC”).

ORACLE ENERGY CORP.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
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2. BASIS OF PRESENTATION (continued)

b) Basis of Preparation

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

c) Presentation and Functional Currency

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

d) Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Elements of these financial statements subject to material estimation uncertainty include:

Fair value measurements

In the preparation of these financial statements, management has estimated the fair value of financial instruments, for which there are no active markets. The fair value estimates are based on the best available information and experience of management. Future events or changes in circumstances may materially impact these estimates used in valuing assets and liabilities at year end.

Significant judgments about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

ORACLE ENERGY CORP.
NOTES TO FINANCIAL STATEMENTS
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2. BASIS OF PRESENTATION (continued)

d) Significant Accounting Judgments and Estimates (continued)

Fair value measurements (continued)

i) *Going concern assessment:*

Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events (as discussed in Note 1), whose subsequent changes could materially impact the validity of such an assessment.

ii) *Consideration of exploration and evaluation asset impairment criteria:*

Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

Significant judgment is required when determining whether facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount. The retention of regulatory permits and licenses, the Company's ability to obtain financing for exploration and development activities and its future plans on the exploration and evaluation assets, current and future metal prices, and market sentiment are all factors considered by the Company.

In respect of the carrying value of exploration and evaluation assets recorded on the statements of financial position, management has determined that it continues to be appropriately recorded, as there has been no obsolescence or physical damage to the assets and there are no indications that the value of the assets have declined more than what is expected from the passage of time or normal use.

iii) *Deferred income tax asset valuation allowances:*

The Company calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its financial statements and their tax bases as deferred tax assets or liabilities, when applicable, as determined under applicable tax legislation.

The future realization of deferred tax assets can be affected by many factors, including current and future economic conditions, net realizable fair market value, and can either be increased or decreased where, in the view of management, such change is warranted. No deferred tax assets have been deemed probable to date.

iv) *Discounting of long-term debt and note payable:*

The discounting of long-term notes payable involves estimates in determining the discount rate used by the Company and the estimated timing of the repayments as indicated in Note 6.

ORACLE ENERGY CORP.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
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2. BASIS OF PRESENTATION (continued)

d) Significant Accounting Judgments and Estimates (continued)

Fair value measurements (continued)

v) *Share based payments and valuation of equity instruments:*

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models such as the Geske option pricing model for equity instruments involving compound options that incorporate market data and involve uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Financial Instruments

The following is the Company's accounting policy for financial instruments under IFRS 9:

Financial instrument	Classification
Cash	FVTPL
Amounts receivable	Amortized cost
Accounts payable	Amortized cost
Due to related parties	Amortized cost
Notes payable	Amortized cost

Financial assets

The Company classifies its financial assets into the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

Amortized cost

Amortized cost are those assets which are held within a business whose objective is to hold financial assets to collect contractual cash flows, and the terms of the financial assets must provide on specified dates cashflows solely through the collection of principal and interest.

Fair value through other comprehensive income ("FVOCI")

FVOCI assets are those assets which are held within a business whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial assets give rise on specified dates to cash flows solely through the collection of principal and interest.

ORACLE ENERGY CORP.
NOTES TO FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial Instruments (continued)

Financial assets (continued)

Fair value through profit or loss ("FVTPL")

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or FVOCI. The Company may, however, make the irrevocable option to classify particular investments as FVTPL.

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in the statement of operations and comprehensive loss for the year. Financial assets classified at amortized cost are measured at amortized cost using the effective interest method.

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.

Financial liabilities

Management determines the classification of its financial liabilities at initial recognition.

Amortized cost

The Company classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for financial liabilities carried at FVTPL and certain other exceptions.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

b) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash at banks and on hand and short-term investments with maturities of three months or less from the date of acquisition. As at December 31, 2021 and 2020, the Company did not have any cash equivalents.

c) Exploration and Evaluation Assets

Costs incurred prior to obtaining the legal rights to explore a property are recognized as an expense in the period in which they are incurred. Acquisition of undeveloped oil and gas leases are initially capitalized as intangible exploration and evaluation assets and are expensed in net income/loss upon the expiration of the lease, impairment of the lease or management's determination that no further exploration or evaluation activities are planned on the leased property, whichever comes first. Properties that are subsequently found to have proved reserves are transferred to property, plant, and equipment.

ORACLE ENERGY CORP.
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Exploration and Evaluation Assets (continued)

The costs directly associated with an exploration well are capitalized as intangible exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuels used, rig costs and other payments made to contractors.

Assets are classified as exploration and evaluation assets or property, plant, and equipment according to the nature of the expenditures and whether or not technical feasibility and commercial viability of extracting oil and gas assets is demonstrable. Costs are retained in exploration and evaluation assets prior to the establishment of technical feasibility and commercial viability of the project. Such amounts are not subject to depletion or depreciation until they are reclassified to property, plant and equipment once proved reserves have been assigned to the asset. If proved reserves have not been established through the completion of exploration and evaluation activities and there are no future plans for activity in that field, then the exploration and evaluation expenditures are determined to be impaired, and the amounts are expensed.

Impairment

If no reserves are found upon evaluation, the exploration and evaluation asset is tested for impairment and the amounts are recognized in net income/loss under exploration and evaluation expenditures. If extractable reserves are found and, subject to further appraisal activity which may include the drilling of additional wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient and continued progress is made in assessing the commerciality of the reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. Lack of intent to develop or otherwise extract value from such discovery would result in the relevant expenditures being written off.

Exploration and evaluation assets are tested for impairment when there are indicators that the carrying value may exceed the recoverable amount, as well as prior to reclassification when the technical feasibility and commercial viability of extracting oil and gas assets is demonstrable. To test for impairment, exploration and evaluation assets are allocated to appropriate cash-generating units. Impairment losses are recognized, as identified, in net income/loss.

Development Costs

Expenditures incurred on the construction, installation, or completion of infrastructure facilities such as processing and gathering facilities and pipelines, and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property and equipment.

ORACLE ENERGY CORP.
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Exploration and Evaluation Assets (continued)

Asset Exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance, or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on de-recognition of the asset given up is recognized in net income/loss.

d) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Share issue costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issue costs related to uncompleted share subscriptions are expensed in the period they are incurred.

Unit offerings require the Company to value each of the unit components separately. Units generally consist of a single common share and a full or a half-warrant. The Company uses the residual value method to value units. Proceeds received on the issuance of units are first allocated to warrants based on the fair market value of the warrants determined using the Black-Scholes option pricing model at the time the units are issued, with the residual being allocated to the common share value.

e) Share-based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

ORACLE ENERGY CORP.
NOTES TO FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Share-based Payment Transactions (continued)

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received. All equity-settled share-based payments are reflected in other equity reserves.

f) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares issued and outstanding during the reporting period.

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the years ended December 31, 2021 and 2020, for the dilutive effect of employee stock options and warrants as they were all anti-dilutive or exercise amounts were higher than market prices. No adjustments were required to the reported income/loss in computing diluted per share amounts.

g) Provisions

A provision is recognized in the financial statements when all of the following criteria are satisfied:

- The Company has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made as to the amount of the obligation.

The amount recognized as a provision is the “best estimate” of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the risk-adjusted expected future cash flows to take into consideration risks and uncertainties involving the transaction. The discount rate used is a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability if those risks have not already been reflected as an adjustment to cash flows. The unwinding of the discount is recognized as a finance expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required, the provision is reversed.

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(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Provisions (continued)

Decommissioning and Restoration

Decommissioning and restoration liabilities are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant, and equipment. The amount recognized is the estimated cost of decommissioning and restoration, discounted to its present value.

Changes in the estimated timing of decommissioning and restoration or related cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant, and equipment. The liability is progressively increased each period as the effect of discounting unwinds, creating an expense recognized in net income/loss.

h) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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4. NOTES RECEIVABLE

Notes receivable are comprised of amounts loaned to an arm's length Corporation for which the Company has been pursuing potential opportunities. The outstanding amount is due on the completion of a transaction with the Corporation or on completing a private placement and is unsecured and bears no interest.

5. NOTES PAYABLE

During the year ended December 31, 2020, the Company entered into debt deferral arrangements in the amount of \$302,677 whereby various related parties, key management and third parties agreed to defer 75% of the amounts owing to three equal installments, repayable from each of the first three private placements completed by the Company subsequent to the first year after the Company completes a qualifying transaction. As a result of the debt settlements and debt deferral arrangements, 25% of the amounts were reclassified from related party debt to current and 75% to long term notes payable.

During the year ended December 31, 2020, the Company borrowed \$40,000 from the Canada Emergency Business Account ("CEBA") program. The CEBA Loan has an initial term that expires on December 31, 2023, throughout which, the CEBA Loan remains interest free. Repayment of \$30,000 by December 31, 2023 results in a \$10,000 loan forgiveness. If the balance is not paid prior to December 31, 2023, the remaining balance will be converted to a 2-year term loan at 5% annual interest, paid monthly effective January 1, 2024. The full balance must be repaid by no later than December 31, 2025.

During the year ended December 31, 2021, the Company borrowed \$2,000 from a company owned by a shareholder and made payments of \$116,974 on outstanding notes payable.

As at December 31, 2021, the total amounts owing were \$298,535 (2020 - \$413,573). The outstanding loans are unsecured and bear no interest.

The summary of notes payable as of December 31, 2021 and 2020 is as follows:

	DECEMBER 31	
	2021	2020
Notes payable	\$ 258,535	\$ 373,573
CEBA	40,000	40,000
Total notes payable	298,535	413,573
Current notes payable	(45,283)	(70,896)
Long term portion	253,252	342,677
Discounting of long-term notes payable	(37,765)	(38,929)
Add: accretion	17,938	1,164
Long term notes payable	\$ 233,425	\$ 304,912

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6. RELATED PARTY BALANCES AND TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Transactions with Key Management Personnel

	YEAR ENDED DECEMBER 31	
	2021	2020
Salaries, and other short-term benefits	\$ 16,000	\$ 15,000
Consulting fees	52,000	-
Legal fees	23,206	24,000
	<u>\$ 91,206</u>	<u>\$ 39,000</u>

Key management personnel are the persons responsible for planning, directing, and controlling the activities of the Company, and include both executive and non-executive directors, certain senior officers, and entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

As at December 31, 2021, \$55,206 (2020 - \$62,569) was owing to key management personnel or to a company controlled by an officer or director and the amounts were included in due to related parties. The amounts payable are non-interest bearing, are unsecured, and have no specific terms of repayment.

As at December 31, 2021, \$77,403 (2020 - \$89,988) was owing to key management personnel or to a company controlled by an officer or director and the amounts were included in notes payable.

7. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value
5,000,000 preferred shares, par value of \$5 per share (none issued)

b) Issued and Outstanding

During the year ended December 31, 2021, the Company completed a share consolidation on a 5:1 basis. The number of shares outstanding has been retroactively restated to reflect the results of the share consolidation.

The following shares were issued during the year ended December 31, 2021:

- 10,000,000 units at a price of \$0.10 per unit for proceeds of \$1,000,000. Each Unit is comprised of 1 common share of the Company and one half (1/2) of a common share purchase warrant with each full warrant being exercisable for an additional common share of the Company at \$0.15 for 12 months. Finder's fees of \$57,960 were paid in cash and 579,600 agent's warrants were issued in connection with the private placement.

There were no shares issued during the year ended December 31, 2020.

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7. SHARE CAPITAL (continued)

c) Warrants

A summary of the changes in the Company's share purchase warrants is as follows:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 2019	11,127,650	\$ 0.95
Expired	(11,127,650)	0.95
Balance, December 31, 2020	-	-
Issued	5,579,600	0.15
Balance, December 31, 2021	5,579,600	\$ 0.15

The following table summarizes the Company's warrants outstanding and exercisable at December 31, 2021:

NUMBER OF WARRANTS OUTSTANDING		EXERCISE PRICE	EXPIRY DATE
5,334,000	*	\$0.15	September 10, 2022
245,600	**	\$0.10	September 10, 2022
<u>5,579,600</u>			

* Includes 334,000 agent's warrants. Each warrant is exercisable for one common share.

** Includes 245,600 agent's warrants. Each warrant is exercisable for one unit. Each unit is comprised of one common share and one full share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.15 per share for 12 months from closing.

The fair value of 5,000,000 warrants issued in connection with private placements was estimated on the date of issuance using the Black-Scholes option pricing model. The fair value of \$379,604 was recorded as reserves and deducted from share capital.

The fair value of 334,000 agent's warrants issued in connection with private placements was estimated on the date of issuance using the Black-Scholes option pricing model. The fair value of \$25,358 was recorded as share issue costs.

The fair value of 245,600 agent's warrants issued in connection with private placements was estimated on the date of issuance using the Black-Scholes option pricing model in combination with the Geske compound option pricing model for underlying warrants. The fair value of \$41,200 was recorded as share issue costs.

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7. SHARE CAPITAL (continued)

c) Warrants (continued)

Assumptions used in the option-pricing model are as follows:

	<u>2021</u>	<u>2020</u>
Risk-free interest rate	0.40%	-
Expected life	1 year	-
Expected volatility	136.5%	-
Expected dividends	Nil	-

d) Incentive Stock Options

The Company's Stock Option Plan ("the Plan") follows the policies of the TSX Venture Exchange regarding stock option awards granted to employees, directors, and consultants. The stock option plan allows a maximum of 10% of the issued shares to be reserved for issuance under the plan.

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

A summary of the changes in the Company's stock options is as follows:

	<u>NUMBER OF OPTIONS</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Balance, December 31, 2019	1,072,000	\$ 0.75
Cancelled	(332,000)	0.75
Forfeited	(740,000)	0.75
Balance, December 31, 2020 and 2021	-	\$ -

There were no outstanding options as at December 31, 2021.

8. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to pursue and complete the identification and evaluation of assets, properties or businesses with a view to acquisition. The Company does not have any externally imposed capital requirements to which it is subject.

As at December 31, 2021 and 2020, the Company had capital resources consisting of cash. 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 or borrow cash.

The Company's investment policy is to invest its excess cash in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

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8. MANAGEMENT OF CAPITAL (continued)

The Company's ability to continue as a going concern is dependent upon successful completion of additional financing, continuing support of creditors and its ability to attain profitable operations.

9. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continuation of the Company's exploration activities, and limited exposure to credit and market risks. There were no changes to the objectives or the process from the prior period.

The types of risk exposure and the way in which such exposures are managed are as follows:

a) Credit Risk

Credit risk primarily arises from the Company's cash, amounts receivable and note receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. Cash is held as cash deposits or invested in guaranteed investment certificates with various maturity dates. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the bank and the investment grade of the guaranteed investment certificates. Amounts receivable primarily consists of Goods and Services Tax (GST) credits. The Company evaluates the creditworthiness of the counterparty and the fair value of the credit loss of the note receivable.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures there is sufficient capital to meet short-term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of assets, liabilities and cash flows. The Company's accounts payable and accrued liabilities and due to related parties are due within one year and notes payables are due within three years.

The Company's cash is deposited in major banks or invested in guaranteed investment certificates, which are available on demand to fund the Company's operating costs and other financial demands.

c) Market Risk

The significant market risks to which the Company is exposed are currency, interest rate, commodity and equity price risks.

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9. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

c) Market Risk (continued)

i) Currency Risk

The operating results and financial position of the Company are reported in Canadian dollars. As the Company is exploring opportunities in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency risk.

The majority of the Company's costs are incurred in Canada and are denominated in Canadian dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date.

The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions is not significant, and therefore, does not hedge its foreign exchange risk.

As at December 31, 2021 and 2020, the Company is exposed to currency risk through the following monetary assets and liabilities denominated in foreign currencies:

	DECEMBER 31		DECEMBER 31
	2021		2020
Cash	USD 76	USD	46
Accounts payable	USD 2,227	USD	1,118
Due to related parties	USD -	USD	4,000
Notes payable	USD 12,000	USD	12,000

Based on the above net exposures and assuming that all other variables remain constant, a 10% change in the value of the foreign currencies against the Canadian dollar would result in an increase or decrease of \$1,794 (2020 - \$1,707) in income/loss from operations.

ii) Interest Rate Risk

The Company's policy is to invest excess cash in guaranteed investment certificates at fixed or floating rates of interest and cash equivalents are to be maintained in floating rates of interest in order to maintain liquidity, while achieving a satisfactory return for shareholders. As at December 31, 2021 and 2020, no cash was held in interest bearing deposits. Fluctuations in interest rates impact the value of cash and cash equivalents. The Company manages risk by monitoring changes in interest rates in comparison to prevailing market rates.

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9. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

c) Market Risk (continued)

iii) Commodity and Equity Price Risk

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

As at December 31, 2021 and 2020, the Company had no investments subject to commodity and equity price risk.

10. INCOME TAXES

The Company's provision for income taxes differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the loss as a result of the following:

	DECEMBER 31	
	2021	2020
Statutory tax rates	27%	27%
Expected income recovery provision	\$ (86,000)	\$ (14,000)
Non-deductible permanent differences and other	(21,000)	11,000
Change in estimate	(221,000)	-
Change in tax assets not recognized	328,000	3,000
Income tax provision (recovery)	\$ -	\$ -

The tax effects of temporary timing differences that give rise to significant components of the deferred tax assets and liabilities are as follows:

	DECEMBER 31	
	2021	2020
Deferred tax assets		
Non-capital losses carried forward	\$ 3,124,840	\$ 2,764,563
Resource deductions and other	2,288,186	2,288,186
Share issue costs	27,858	60,374
Total deferred tax assets	5,440,884	5,113,123
Less: Deferred tax assets not recognized	(5,440,884)	(5,113,123)
Net deferred tax assets	\$ -	\$ -

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10. INCOME TAXES (continued)

The Company has Canadian non-capital losses for income tax purposes of approximately \$10,496,000 (2020 - \$10,239,000), which may be available to reduce taxable income in future years. The potential benefit of these losses has not been recognized as a deferred tax benefit, as currently it is not probable that such benefit will be utilized in the foreseeable future. These losses expire between 2026 and 2041.

In addition, the Company has resource related expenditures of approximately \$8,448,000 (2020 - \$8,448,000), which can be carried forward indefinitely to offset future taxable income.

11. SUBSEQUENT EVENTS

On January 10, 2022, the Company announced it has re-entered into negotiations with Methanogenesis Corporation ("Methano") to acquire Methano and that the Company is also contemplating a concurrent move to the Canadian Securities Exchange ("CSE"). The Company proposes to acquire Methano by way of a share exchange, and the Company will be providing further details if, as and when discussions are formalized in an agreement to complete the proposed acquisition of Methano.