CANASIA ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM
MAY 27, 2022 (DATE OF INCORPORATION) TO DECEMBER 31, 2022

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of CanAsia Energy Corp.

Opinion

We have audited the consolidated financial statements of CanAsia Energy Corp. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of operations and comprehensive loss for the period from May 27, 2022 to December 31, 2022
- the consolidated statements of changes in shareholders' equity for the period from May 27, 2022 to December 31, 2022
- the consolidated statements of cash flows for the period from May 27, 2022 to December 31, 2022
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the period from May 27, 2022 to December 31, 2022 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit 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 auditor's report.

We are independent of the Entity 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 is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the period ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of indicators of impairment reversal for the Alberta exploration and evaluation assets ("Alberta E&E Assets")

Description of the matter

We draw attention to note 2 and note 3 to the financial statements. The Alberta E&E Assets are assessed for impairment reversal whenever events and circumstances indicate that the recoverable amount exceeds the carrying value. Significant judgment is required in determining whether indicators of impairment reversal exist for the Alberta E&E Assets including whether expenditures on further exploration and evaluation activities on the Alberta E&E Assets are budgeted or planned and if it is feasible that the Alberta E&E Assets can be developed to commerciality. There were no indicators of impairment reversal for the Alberta E&E Assets as of December 31, 2022.

Why the matter is a key audit matter

We identified the evaluation of indicators of impairment reversal for the Alberta E&E Assets as a key audit matter. Significant auditor judgment was required in evaluating the results of our audit procedures with respect to the Company's indicators of impairment reversal analysis.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Company's indicators of impairment reversal analysis for the Alberta E&E Assets by:

- Assessing whether expenditures on further exploration and evaluation activities on the Alberta E&E Assets are budgeted by comparing to the Company's 2023 budget
- Assessing the Company's analysis as to whether it is feasible that the Alberta E&E Assets can be developed to commerciality by examining the Company's press releases and certain minutes of the meetings of the Board of Directors.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will 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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

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 (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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the 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 Entity'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 Entity'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 Entity 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.

- 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.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity 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.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor’s report is Shane Doig.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 14, 2023

CanAsia Energy Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

($000s)	December 31, 2022
Assets	
Current	
Cash and cash equivalents	9,086
Restricted cash	58
Accounts receivable and prepaid expenses	216
	9,360
Right-of-use asset	22
Deposits (note 5)	852
Intangible asset (note 4)	366
Total assets	10,600
Liabilities	
Current	
Accounts payable and accrued liabilities	3,029
Lease liabilities	18
Decommissioning provision (note 5)	943
	3,990
Deferred tax liabilities (note 6)	22
Decommissioning provision (note 5)	1,460
Total liabilities	5,472
Shareholders' equity	
Share capital (note 7)	6,980
Contributed surplus	96
Non-controlling interest (note 11)	(1,796)
Deficit	(152)
Total shareholders' equity	5,128
Total liabilities and shareholders' equity	10,600

Commitment (note 13)
Subsequent events (note 14)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed "Richard Alexander")
Director

(signed "Gerald Macey")
Director

CanAsia Energy Corp.
Consolidated Statement of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

($000s, except per share amount)	Period from May 27, 2022 to December 31, 2022
Expenses (Income)	
General and administrative	782
Operating expense	149
Stock-based compensation (note 7)	96
Amortization (note 4)	17
Decommissioning recovery (note 5)	(3)
Finance income	(70)
Foreign exchange gain	(231)
	740
Loss before taxes and non-controlling interest	(740)
Taxes	
Deferred income tax expense (note 6)	22
Net loss and comprehensive loss	(762)
Net loss attributable to:	
Common shareholders	(725)
Non-controlling interest	(37)
Net loss	(762)
Total comprehensive loss attributable to:	
Common shareholders	(725)
Non-controlling interest	(37)
Total comprehensive loss	(762)
Basic and diluted - net loss attributable to common shareholders (note 7)	$ (0.01)

See accompanying notes to the consolidated financial statements.

CanAsia Energy Corp.
Consolidated Statement of Changes in Shareholders' Equity
From May 27, 2022 (date of incorporation) to December 31, 2022
(Expressed in Canadian dollars)

($000s)	Share Capital	Contributed Surplus	NCI	Deficit	Total
Balance as at May 27, 2022	-	-	-	-	-
Issued under the Arrangement (note 1)	6,980	-	(1,186)	-	5,794
Net loss	-	-	(37)	(725)	(762)
Transaction affecting non-controlling interest (note 7d)	-	-	(573)	573	-
Stock-based compensation	-	96	-	-	96
Balance as at December 31, 2022	6,980	96	(1,796)	(152)	5,128

See accompanying notes to the consolidated financial statements.

CanAsia Energy Corp.
Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

($000s)	Period from May 27, 2022 to December 31, 2022
Cash From (Used in)	
Operating Activities	
Net loss	(762)
Adjustments for non-cash items:	
Deferred tax expense	22
Amortization	17
Stock-based compensation	96
Accretion	17
Decommissioning recovery	(3)
Unrealized foreign exchange gain	(393)
Changes in non-cash working capital	389
Cash flow used in operating activities	(617)
Financing Activities	
Cash received under the Arrangement (note 1)	9,319
Lease payments	(9)
Cash flow from financing activities	9,310
Change in cash and cash equivalents	8,693
Effect of foreign exchange on cash and cash equivalents	393
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	9,086

See accompanying notes to the consolidated financial statements.

1) CORPORATE INFORMATION AND FUTURE OPERATIONS

CanAsia Energy Corp. ("CanAsia" or the "Company") is a Canadian publicly listed junior oil and gas company. It was incorporated by Pan Orient Energy Corp. ("Pan Orient") pursuant to the Alberta Business Corporations Act on May 27, 2022. On August 25, 2022, Pan Orient completed an arrangement (the "Arrangement") that resulted in a third party acquiring Pan Orient (including Thailand operations), and the Canadian assets and the discontinued Indonesia operations of Pan Orient being acquired by CanAsia. Further details of the Arrangement are described below. The CanAsia common shares began trading on the TSX Venture Exchange on August 29, 2022, under the symbol CEC. The records office and principal address of the Company is located at 1505, 505 – 3rd Street S.W., Calgary, Alberta, T2P 3E6.

Under the Arrangement completed on August 25, 2022: (a) Dialog Group Berhad of Malaysia acquired all of the issued and outstanding Pan Orient shares and Pan Orient's Thailand business; (b) Pan Orient shareholders received, for each Pan Orient share held, a cash payment of USD $0.788 and one CanAsia share; and (c) CanAsia became a public company with shares listed on the TSX Venture Exchange. Pan Orient transferred to CanAsia all of Pan Orient's non-Thailand assets, including Pan Orient's 71.8% ownership of Andora Energy Corporation ("Andora"), which has interests in oil sands properties in Sawn Lake, Alberta, convertible loans receivable from Andora, 100% ownership in Pan Orient Energy Holdings Ltd. ("POEH") with legacy subsidiaries which had held interests in Indonesia, and working capital and long-term deposits. CanAsia assumed all liabilities related to Pan Orient's non-Thailand business, consisting primarily of accounts payable and accrued liabilities included in working capital and the decommissioning provision.

The assets acquired by CanAsia under the Arrangement were recorded at the carrying amounts from the accounting records of Pan Orient as the transaction was considered a common control acquisition under International Financial Reporting Standards. The carrying value of the net assets acquired by CanAsia under the Arrangement of $6,980 was recorded as follows:

Cash and working capital received under the Arrangement (1)	$ 13,394
Net liabilities of Andora assumed (1)	(4,203)
Net liabilities of POEH assumed	(3,397)
Non-controlling interest in Andora (note 11)	1,186
Ascribed value of common shares issued under the Arrangement	$ 6,980

(1) Includes outstanding balances on convertible credit facilities (note 7(d)(iii)).

In November 2022, CanAsia increased its ownership of Andora to 88.2% as a result of converting a loan receivable from Andora (see note 7d). Andora's principal asset is the Sawn Lake heavy oil property in Northern Alberta which has no production and does not produce positive operating cash flows. The continued development of the property and the commencement of production therefrom is dependent on numerous factors including commodity pricing, access to capital, availability of supplies and services and various other economic and environmental factors. There are no assurances that the property will produce commercial quantities of oil that will be sufficient to support the ongoing operations of the Company.

CanAsia continues to evaluate international oil and gas concessions, and any acquisition and development will require capital, and the amount and timing of which is currently not known.

As at December 31, 2022, management of CanAsia asserted that the entity has sufficient resources available to fund current activity levels for at least twelve months from the balance sheet date. However, additional capital will be required to fund the commercial development of the Sawn Lake property and future international concessions, if obtained. The amount of capital required could be material and there are no assurances that the Company will be able to access the necessary funds when required.

2) BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were approved by the Company's Board of Directors on March 14, 2023.

Use of Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the dates of the statements of financial position as well as the reported amounts of expenses and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the dates of the financial statements. Actual results could differ materially from estimated amounts.

Information used to assess indicators of impairment or impairment reversal related to exploration and evaluation assets is based on a number of factors including future oil prices, whether expenditures on further exploration and evaluation activities in the specific area are budgeted or planned, and if it is feasible that the project can be developed to commerciality. To assess indicators of impairment, costs are allocated into cash generating units ("CGUs") based on their ability to generate largely independent cash flows. The transfer of exploration and evaluation assets to property, plant and equipment is based on management's judgment of technical feasibility and commercial viability.

Stock-based compensation is subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes which is based on significant assumptions such as expected volatility, dividend yield and expected term.

Amounts recorded for decommissioning provision and the related accretion expense requires the use of estimates with respect to the amount and timing of abandonment costs, inflation and interest rates.

The provision for income taxes is based on judgments in applying income tax law and estimates on the applicable tax rates, timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Events such as the Covid-19 pandemic and the invasion of Ukraine by Russian forces have resulted in a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates, and increasing rates of inflation. These events have led to a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. These events and any potential resulting direct and indirect impact on the Company have been considered in management's estimates described above at the period end; however there could be a further prospective material impact in future periods.

Climate Change and Environmental, Social, and Governance ("ESG")

Climate change and ESG policies are evolving at regional, national and international levels. Political and economic events may significantly affect the scope and timing of ESG policies and climate change measures. The International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim of developing sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued proposed National Instrument 51-107 Disclosure of Climate-related Matters.

The direct or indirect costs of compliance with greenhouse gas-related regulations and ESG directives may have an adverse effect on the Company's and its customers' businesses, financial condition, results of operations and prospects; however, at this time these costs have not yet been quantified. Significant estimates and judgment currently made by management which could be significantly impacted by climate and climate-related matters include:

- Useful life of assets;
- Cost and ability to develop the Company's existing oil and gas properties or its ability to acquire and develop additional concessions and;
- Amounts recorded for decommissioning provision.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. All significant intercompany transactions and balances have been eliminated. Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition. All of the Company's material subsidiaries are wholly owned except for Andora, of which CanAsia owns 88.2% of the outstanding common shares. The consolidated financial statements include a non-controlling interest representing 11.8% of Andora's assets and liabilities not attributed to CanAsia. Accounting policies are applied consistently throughout all consolidated entities and the reporting dates of the Company and its subsidiaries are coterminous.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with an original maturity date of three months or less.

(c) Exploration and Evaluation ("E&E")

Pre-exploration and pre-licensing costs associated with the investigating, bidding and acquisition of petroleum properties are expensed prior to obtaining a petroleum lease or concession.

Costs incurred prior to establishing commercial viability and technical feasibility, such as land and lease acquisition costs, and geological and geophysical costs, are initially classified as E&E assets. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable based on several factors including the assignment of proven and probable reserves. Upon determination of technical feasibility and commercial viability, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

The carrying value amount of E&E assets associated with the Sawn Lake property acquired in the Arrangement was $nil (cost and accumulated depletion and impairment of approximately $83.8 million). At December 31, 2022, an impairment reversal test was not required.

(d) Property, Plant and Equipment ("PP&E")

Unless initially classified as E&E assets, all costs related to the acquisition, exploration and development of petroleum and natural gas properties are capitalized and measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, decommissioning costs, and carrying costs.

Petroleum and natural gas assets are accumulated in components, which generally are fields or groups of fields and then aggregated into CGUs. Depletion is provided on costs accumulated using the unit-of production method based on an independent engineering estimate of the Company's share of proved plus probable reserves, before royalties. Included in the depletion base are estimated future costs to be incurred in developing proved and probable reserves.

Gains and losses on disposal of an item of PP&E, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized within profit or loss.

Cost incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts, including major inspection, of PP&E are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. The carrying amount of any replaced or sold component is derecognized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

Depreciation of corporate and other assets such as patents, furniture, fixtures and computer hardware, is calculated on a straight-line basis over the useful life of the related assets.

(e) Intangible Assets

Intangible assets with indefinite useful lives are not subject to amortization. Amortization of limited-life intangible assets is calculated using a straight-line method over their expected useful lives. The intangible asset in the consolidated financial statements is a patent and is amortized over its remaining useful life of 10 years.

(f) Impairment of Assets

An impairment test is performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. E&E assets are allocated to the CGU or groups of CGUs to which they relate for purposes of impairment testing. If there is indication of an impairment loss, the costs carried in the statement of financial position in excess of the recoverable amount are charged to the statement of operations.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses can be reversed if there is a change in the estimates used to determine the recoverable amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depreciation and depletion that would have been taken if no impairment was recognized.

(g) Leases

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option the Company is reasonably certain to exercise, lease payment in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payment arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

(h) Decommissioning Provision

The Company recognizes a liability related to statutory, contractual or other legal obligations associated with the retirement of assets, when a reasonable estimate of the provision can be determined. A corresponding increase to the carrying amount of the related asset is recorded. The liability is increased as accretion is recognized over time through charges to accretion, which is included in finance costs. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying assets. Revisions to the estimated timing of cash flows, inflation rates, discount rates or to the original estimated undiscounted costs also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(i) Stock-Based Compensation

The Company accounts for stock-based compensation based on the estimated fair value of the awards on the grant date. For stock options granted to directors, employees and consultants, the estimated grant date fair value is calculated using the Black-Scholes option-pricing model. For restricted share units, the grant date fair value of the units is estimated based on the Company's share price on the grant date. Stock-based compensation associated with options is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. Stock-based compensation for restricted share units is accounted for as a liability award as the awards are settled in cash. Compensation expense is recognized over the vesting period with the offset included in accounts payable. The amount recognized as expense is adjusted for an estimated forfeiture rate for options and restricted share units that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

(j) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect the difference between the accounting and tax base of assets and liabilities, and income tax loss carry forwards. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the end of the reporting period. The effect of a change in income tax rate is recognized in income in the period that the change occurs.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow the assets to be recovered. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

The Company offsets deferred tax assets and deferred tax liabilities relating to the same taxable entity. The Company may also offset deferred tax assets and deferred tax liabilities relating to different taxable entities, where the amounts relate to income taxes levied by the same taxation authority and the entities intend to realize the assets and settle the liabilities simultaneously.

(k) Per Share Amounts

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options, plus unamortized stock compensation costs, would be used to buy back common shares at the average market price for the period.

(l) Foreign Currency

The Company's reporting currency is the Canadian dollar and its subsidiaries' functional currencies are the Canadian dollar and the U.S. dollar.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative translation account.

(m) Financial Instruments

All financial assets, liabilities and financial derivatives are initially recognized in the statement of financial position at fair value and must be classified as one of the following three categories:

- Amortized Cost: Includes assets that are held within a business model the objective of which 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;
- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model the objective of which 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 and 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. This includes all derivative financial assets.

The Company has classified cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities as amortized cost.

4) INTANGIBLE ASSET

A reconciliation of the carrying amount of the intangible asset as at December 31, 2022 is set out below.

($000s)	
Cost	
At May 27, 2022	-
Patent assumed under the Arrangement (note 1)	699
At December 31, 2022	699
Accumulated amortization	
At May 27, 2022	-
Patent assumed under the Arrangement (note 1)	(319)
Amortization	(14)
At December 31, 2022	(333)
Net book value	
At May 27, 2022	-
At December 31, 2022	366

The patent pertains to steam related technology and process that the Company anticipates utilizing on its Canadian heavy oil property.

5) DECOMMISSIONING PROVISION

A reconciliation of the Company's decommissioning provision at December 31, 2022 is set out below.

($000s)	**Canada**	**Indonesia**	**Total**
At May 27, 2022	-	-	-
Assumed under the Arrangement (note 1)	1,447	952	2,399
Revisions to obligations	(3)	-	(3)
Settlement	-	(54)	(54)
Accretion	16	-	16
Foreign currency translation	-	45	45
At December 31, 2022	1,460	943	2,403
Less current portion	-	(943)	(943)
Non-current portion	1,460	-	1,460

The decommissioning provision is based on the Company's net ownership through subsidiaries of wells and facilities in Indonesia and Canada, management's estimates of costs to abandon and reclaim those wells and facilities and the potential future timing of the costs to be incurred. The Company has discontinued all operations in Indonesia and is working to finalize the abandonment and reclamation obligations in the country. Total undiscounted cash flows, escalated at 2.09% for inflation, required to settle the Company's decommissioning provision are estimated to be $3.6 million at December 31, 2022. Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between

2023 and 2040. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred which averaged 3.28% at December 31, 2022. Revision to obligations for the Canadian and Indonesian provisions are recognized directly in income or loss as decommissioning expense or recovery as the corresponding assets were fully impaired.

Non-current deposits of $0.9 million at December 31, 2022 consisted of deposits placed with the Alberta Energy Regulator in Canada for the interests of Andora at Sawn Lake.

6) INCOME TAXES

A reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense included in the consolidated statement of operations is as follows:

($000s)	Period from May 27, 2022 to December 31, 2022
Loss before taxes and non-controlling interest	(740)
Statutory income tax rate	23%
Expected income tax recovery	(170)
Increase resulting from:	
Tax benefits not recognized	105
Stock based compensation	22
Nondeductible expenses and other	65
Income tax expense	22

The components of the Company's deferred income tax liabilities are as follows:

($)	December 31, 2022
Deferred tax liabilities (assets):	
Unrealized foreign exchange gain	90
Non-capital loss carry-forwards	(68)
Net deferred tax liability	22

The following table provides details of deductible temporary differences and loss carry-forwards for which no deferred tax asset has been recognized:

($000s)	December 31, 2022
Petroleum and natural gas properties	26,745
Decommissioning provision	1,460
Non-capital losses (1)	32,441
Total	60,646

(1) Non-capital loss carry-forwards expire from 2026 to 2042.

(2) The above table excludes losses in jurisdictions where operations have been discontinued.

7) SHARE CAPITAL

(a) Authorized

Unlimited Common Voting Shares
Unlimited Preferred Shares

(b) Issued and Outstanding Class A Common Shares

	Shares Outstanding	**Amount ($000s)**
Balance as at May 27, 2022	1	-
Issued under the Arrangement (note 1)	49,793,906	6,980
Balance as at December 31, 2022	49,793,907	6,980

The Company issued one common share upon incorporation on May 27, 2022. Pursuant to the Arrangement, 49,793,906 common shares were issued to the holders of Pan Orient common shares (note 1).

(c) Options to Purchase Common Shares

	Number of Options [(1)]	**Weighted Average Exercise Price ($)**
Options outstanding at May 27, 2022	-	-
Granted	1,675,000	0.23
Options outstanding at December 31, 2022	1,675,000	0.23

(1) These options are held by directors, senior management, employee, and consultant of the Company.

	Options Outstanding at December 31, 2022			**Options Exercisable at December 31, 2022**		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)
0.23	1,675,000	0.23	4.9	558,333	0.23	4.9

In August 2022, the shareholders of Pan Orient approved CanAsia's equity incentive plan which became effective on the completion of the Arrangement on August 25, 2022. On November 22, 2022, the Company granted options to directors, officers, an employee, and a consultant to purchase an aggregate of 1,675,000 common shares under CanAsia's equity incentive plan. Each option has an exercise price of $0.23 (being the November 21, 2022 closing price of the shares on the TSX Venture Exchange), vests as to one-third on the grant date and one-third on each of the first and second anniversaries of the grant date and expires on November 22, 2027.

The fair value of options was estimated using a Black-Scholes option pricing model with the following assumptions: share price of $0.23, volatility of 75.8%, risk free rate of 3.26% and estimate life of 5 years.

(d) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

Pursuant to the Arrangement, CanAsia assumed ownership of 71.8% of Andora's 100,115,066 issued and outstanding common shares on August 25, 2022 (note 1). In November 2022, Andora issued 139,427,534 common shares to CanAsia at $0.01 per share upon the conversion of the outstanding amount under a convertible credit facility (see note 7(d)(iii)). As at December 31, 2022, 239,542,600 common shares were outstanding and CanAsia's ownership in Andora increased to 88.2%.

ii) Options to Purchase Common Shares of Andora

Andora maintains a stock option plan for various directors, employees and consultants. Andora issued stock options in 2021, which were outstanding at the date of the Arrangement (note 1) and December 31, 2022.

	Number of Options [(1)]	**Weighted Average Exercise Price ($)**
Stock options outstanding at the date of the Arrangement (note 1) and December 31, 2022	9,800,000	0.01

(1) On July 28, 2021, Andora issued 9.8 million stock options to its directors, officers, and employee with an exercise price of $0.01 per share. The options have a term of 4 years, with one third vested at the time of grant and the remaining two thirds vesting annually over a two-year period.

The following stock options of Andora were outstanding and exercisable at December 31, 2022:

Options Outstanding December 31, 2022				Options Exercisable December 31, 2022		
Exercise Price ($)	**Number of Options**	**Weighted Average Exercise Price ($)**	**Weighted Average Remaining Contractual Life (years)**	**Number of Options**	**Weighted Average Exercise Price ($)**	**Weighted Average Remaining Contractual Life (years)**
0.01	9,800,000	0.01	2.57	6,533,338	0.01	2.57

iii) Convertible Credit Facilities

Pursuant to the Arrangement, CanAsia assumed from Pan Orient two convertible loan agreements with Andora on August 25, 2022. Under the agreements, Andora could draw up to $2.5 million against one revolving credit facility (the “First Credit Facility”) and up to $1.3 million against the second revolving credit facility (the “Second Credit Facility”). The full amounts of the facilities were drawn as of the date of the Arrangement. The loans bear interest at HSBC Canada prime rate for commercial loans in Canadian dollars plus three percent, per annum. Any principal drawn against the respective credit facilities, including accrued interest (collectively, the “outstanding amount”), was originally repayable upon demand by CanAsia or by December 31, 2022, whichever was earlier. Security for repayment of any outstanding amounts is provided by a general security agreement creating a first fixed charge over all of Andora’s property, subject to certain permitted encumbrances. CanAsia has the option to convert the outstanding amounts, or a portion thereof, into Andora’s common shares, at a price of $0.15 per share under the First Credit Facility and at a price of $0.01 per share under the Second Credit Facility.

In November 2022, CanAsia, at its election, converted the outstanding amount of the Second Credit Facility into 139,427,534 common shares of Andora, and the facility was terminated. As a result of the conversion, non-controlling interest was adjusted by $0.6 million, with an offset to deficit.

Also, in November 2022, CanAsia and Andora agreed to extend the maturity date of the First Credit Facility by one year, so that any amount drawn against the facility, including accrued interest, is now repayable upon demand or no later than December 31, 2023, whichever is earlier.

As at December 31, 2022, a total of $2.5 million was fully drawn against the First Credit Facility and the related outstanding amount is not expected to be collected from Andora in the foreseeable future.

(e) Earnings per Share Attributable to Common Shareholders

A reconciliation of the weighted average number of common shares used to calculate net loss per share is as follows:

	Period from May 27, 2022 to December 31, 2022
Weighted average common shares – basic and diluted	49,793,907
Net loss attributable to common shareholders ($000s)	(725)
Net loss per share – basic and diluted	$ (0.01)

Options were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

8) CAPITAL MANAGEMENT

The Company’s capital consists of the following:

($000s)	December 31, 2022
Current assets	9,382
Current liabilities	(3,990)
Working capital	5,392
Non-current deposits	852
Working capital and non-current deposits	6,244
Share capital	6,980

CanAsia's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining future development of its businesses and maintaining investor, creditor and market confidence.

The Company considers its capital structure to include share capital and working capital plus non-current deposits. Management is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas industry. In the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

CanAsia's share capital is not subject to any external restrictions.

9) FINANCIAL INSTRUMENTS

Overview

The nature of CanAsia's operations exposes the Company to credit risk, liquidity risk and market risk. Changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income. This note provides information about the Company's exposure to each of the above risks as well as the Company's objectives, policies and processes for measuring and managing these risks.

CanAsia's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management.

Fair Value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities. The fair value of these financial instruments approximates the carrying value.

Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is related to cash and cash equivalents and deposits.

Cash and cash equivalents consist of bank cash balances and short-term deposits maturing in less than 90 days. The Company's short-term investments consist of bankers' acceptances and term deposits. It is not the Company's policy to utilize complex, higher-risk investment vehicles. In addition, the Company's cash is held at chartered banks where the credit risk is considered by management to be minimal.

The deposits are held by the Alberta Energy Regulator where credit risk is also considered by management to be low.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its work commitments and other financial obligations as they come due. CanAsia's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon its existing cash position and the management of its cash flows and available resources. To forecast and monitor liquidity, the Company prepares annual operating and capital expenditure budgets which are monitored and updated as considered necessary. Working capital at December 31, 2022 is $5.4 million.

The Company's current financial liabilities at December 31, 2022 are accounts payable and accrued liabilities and the current portion of decommissioning provision, totaling $4.0 million which will come due within one year.

The Company's commitments are expected to be funded through the Company's cash balances.

Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity Price Risk

Changes in commodity prices may significantly impact the exploration and development plans of the Company. Crude oil prices are impacted by world economic and political events that dictate the levels of supply and demand.

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Changes in interest rates could impact the Company's cash flows, and net income (loss) and comprehensive income (loss). A 1% change in the interest rate would impact net income (loss) before tax by approximately $0.06 million based on the cash balances at period end.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that future cash flows, net income (loss) and comprehensive income (loss) will fluctuate as a result of changes in foreign exchange rates. Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar can affect net income (loss). The Company's reporting currency is the Canadian dollar and its subsidiaries' functional currencies are the Canadian dollar and the U.S. dollar. Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar can affect earnings.

The following financial instruments were denominated in currencies other than the Canadian dollar:

	December 31, 2022 U.S. dollar ($000s)
Cash and cash equivalents	6,454
Accounts payable and accrued liabilities	(1,956)
Net exposure in foreign currency	4,498
Net exposure in Canadian dollars[(1)] ($000s)	6,081

(1) Translated at period end exchange rates.

Based on financial instruments held at December 31, 2022, fluctuations in the exchange rates as indicated below would have the following estimated effect on net income (loss) and comprehensive income (loss):

($000s)	December 31, 2022
Effect of 1% increase in USD to CAD exchange rate:	
Pre-tax net income	61

10) SUBSIDIARIES

The Company's material subsidiaries as at December 31, 2022 are as follows:

Material Subsidiaries	**Nature and Primary Place of Business**	**Ownership**
Andora Energy Corporation	Operator of and holder of 75% interest in the Sawn Lake Steam-Assisted Gravity Drainage ("SAGD") Demonstration Project located in Northern Alberta.	88.2%
Pan Orient Energy Holdings Ltd.	Holds legacy subsidiaries which had held Production Sharing Contracts in Indonesia.	100%

Pursuant to the Arrangement, CanAsia assumed ownership of 71.8% of Andora's 100,115,066 issued and outstanding common shares on August 25, 2022 (note 1). In November 2022, Andora issued 139,427,534 common shares to CanAsia at $0.01 per share upon the conversion of the outstanding amount under a convertible credit facility (see note 7(d)(iii)). As at December 31, 2022, 239,542,600 common shares were outstanding and CanAsia's ownership in Andora increased to 88.2%.

11) NON-CONTROLLING INTEREST

The following subsidiary has a material non-controlling interest ("NCI"):

Name	Ownership interest held by NCI at December 31, 2022
Andora Energy Corporation	11.8%

Certain financial information of Andora before any intercompany eliminations is as follows:

($000s)	As at and for the period from August 25, 2022 to December 31, 2022
Interest revenue	22
Total comprehensive loss	(277)
Total comprehensive loss attributable to non-controlling interest	(37)
Current assets	289
Non-current assets	1,218
Current liabilities	(3,133)
Non-current liabilities	(1,460)
Net liabilities	(3,086)
Net liabilities attributable to non-controlling interest as at December 31, 2022	(1,796)
Net liabilities attributable to non-controlling interest as at August 25, 2022 (note 1)	(1,186)
Changes in equity during the period	(610)
Cash flow used in operating activities	(272)
Cash flow from financing activities	116
Net decrease in cash and cash equivalents	(156)

The Company recognized the non-controlling interest in Andora as the NCI's share of net liabilities at the acquisition date with the NCI's share of income or loss recognized in subsequent periods. Transactions impacting the equity of Andora, such as stock-based compensation and contributed surplus, have resulted in a difference between the proportionate share of Andora's net liabilities and the NCI recognized in CanAsia's consolidated statements of financial position.

12) RELATED PARTY DISCLOSURES

Compensation for key management personnel, being the officers and directors, is as follows:

($000s)	Period from May 27, 2022 to December 31, 2022
Short-term benefits (1)	227
Stock-based compensation	86
Total	313

(1) Include salaries, benefits and directors' fees.

The Company's consolidated statements of operations and comprehensive income are prepared primarily by nature of expenses, with the exception of employee compensation expense which are included in general and administrative expense and stock-based compensation. The following table details the amount of employee compensation expense included in general and administrative expense in the consolidated statements of operations and comprehensive income:

($000s)	Period from May 27, 2022 to December 31, 2022
General and administrative	177
Stock-based compensation	96
Total employee compensation expense	273

13) COMMITMENT

As at December 31, 2022, the Company's estimated outstanding commitment is as follows:

	Estimated Net Financial Commitment (1)	
Canadian Heavy Oil Sands – Andora Energy Corporation	**Obligation Period**	**($000s)**
Natural gas pipeline tariff at Sawn Lake, Alberta	April 1, 2023 to March 31, 2031	1,687

(1) Represents Andora's 75% working interest in Sawn Lake.

14) SUBSEQUENT EVENTS

On February 28, 2023, the board of directors of Andora accepted a formal proposal made by CanAsia with respect to a transaction (the "Transaction") whereby the outstanding shares of Andora will be consolidated on a 211,283,457:1 basis (the "Consolidation"); and all fractional shares resulting from the Consolidation will be redeemed (the "Redemption") by Andora and cancelled, and the holders thereof will be entitled to receive a cash redemption payment of $0.044 for each pre-Consolidation share of Andora (the "Consideration"). Following the Transaction, CanAsia, which currently owns 88.2% of the outstanding shares of Andora, will own 100% of the issued and outstanding shares of Andora.

Completion of the Transaction is subject to satisfaction of certain conditions, including that all issued and outstanding options to acquire shares of Andora will be either exercised or surrendered for their "in-the-money" value. CanAsia has agreed that it will provide to Andora, by loan or otherwise, sufficient funds to pay the Consideration, make any payments to holders of Andora options, and pay Andora's reasonable expenses of the Transaction.

The Transaction is subject to approval by shareholders of Andora at a special meeting to be held on March 27, 2023. Pursuant to the CanAsia proposal accepted by Andora on February 28, 2023, CanAsia has agreed to vote in favour of the Transaction. If all other conditions to the Transaction becoming effective are also satisfied or waived, it is expected that the Transaction will be effected on or around the date of the special meeting.

Andora issued a term promissory note of $0.1 million to CEC on February 27, 2023. The note bears interest at HSBC Canada prime rate for commercial loans in Canadian dollars plus three percent, per annum. The face value of the note, including accrued interest, is repayable upon demand or by December 31, 2023, whichever is earlier.