Capitan Investment Ltd.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2023

(Unaudited – Prepared by Management)

Notice of No Auditor Review of Condensed Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim financial statements as at and for the three and nine months ended September 30, 2023.

Capitan Investment Ltd.
Condensed Interim Consolidated Statements of Financial Position
(unaudited)
(in Canadian dollars)

As at		September 30 2023		December 31 2022
Assets				
Current assets				
Cash	$	1,289,491	$	1,652,783
Investments (Note 3)		6,760,000		6,772,000
Accounts receivable (Note 4)		228,516		240,807
Prepaid expenses and deposits		710,861		660,889
		8,988,868		9,326,479
Property and equipment (Note 5)		480,384		190,435
Total Assets	$	9,469,252	$	9,516,914
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	436,979	$	526,029
Current portion of lease liability (Note 6)		119,410		11,515
Current portion of decommissioning obligations (Note 7)		217,189		311,218
Canada Emergency Business Account loan (Note 8)		-		40,000
		773,578		888,762
Lease liability		200,397		-
Decommissioning obligations (Note 7)		70,850		69,091
Total Liabilities		1,044,825		957,853
Shareholders' Equity				
Share capital		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated other comprehensive income		464,869		476,903
Accumulated deficit		(13,749,645)		(13,627,045)
Total Shareholders' Equity		8,424,427		8,559,061
Total Liabilities and Shareholders' Equity	$	9,469,252	$	9,516,914

See the accompanying notes to these condensed interim consolidated financial statements.

Capitan Investment Ltd.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(unaudited)
(in Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Revenue				
Return on investments (Note 3)	$ 169,053	$ 164,546	$ 503,183	$ 479,861
Expenses				
General and administrative	156,793	126,629	438,267	425,053
Depreciation (Note 5)	31,706	31,480	95,785	92,368
Imputed interest (Note 6)	9,009	1,904	25,660	4,868
Foreign exchange	254	(799)	2,888	(990)
	197,762	159,214	562,600	521,299
Loss from operating activities	(28,709)	5,332	(59,417)	(41,438)
Interest income	8,539	-	23,635	-
Canada Business Account loan income (Note 8)	10,000	-	10,000	-
Net (loss) income from oil and gas operations (Note 9)	(43,419)	(20,197)	(96,818)	30,122
Net loss	(53,589)	(14,865)	(122,600)	(11,316)
Exchange differences on translation of subsidiary	150,850	434,745	(12,034)	540,701
Comprehensive income (loss)	$ 43,672	$ 419,880	$ (134,634)	$ 529,385
Net loss per share - basic	$ (0.00)	$ (0.00)	$ (0.00)	$ 0.00
Weighted average number of common shares outstanding	289,684,072	289,684,072	289,684,072	289,684,072

See the accompanying notes to these condensed interim consolidated financial statements.

Capitan Investment Ltd.
Condensed Interim Consolidated Statements of Changes in Equity
(unaudited)
(in Canadian dollars)

For the nine months ended September 30		2023		2022
Share capital				
289,684,072 common shares issued and outstanding				
Balance, beginning and end of period	$	20,465,084	$	20,465,084
Contributed surplus				
Balance, beginning and end of period		1,244,119		1,244,119
Accumulated other comprehensive income				
Balance, beginning of period		476,903		22,283
Exchange differences on translation of subsidiary		(12,034)		540,701
Balance, end of period		464,869		562,984
Accumulated deficit				
Balance, beginning of period		(13,627,045)		(13,126,172)
Net loss		(122,600)		(11,316)
Balance, end of period		(13,749,645)		(13,137,488)
Total Shareholders' Equity	$	8,424,427	$	9,134,699

See the accompanying notes to these condensed interim consolidated financial statements.

Capitan Investment Ltd.
Condensed Interim Consolidated Statements of Cash Flows
(unaudited)
(in Canadian dollars)

For the nine months ended September 30	2023	2022
Operating activities		
Net income (loss)	$ (122,600)	$ (11,316)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 5)	100,358	138,420
Imputed interest (Note 6)	25,660	4,868
Lease incentive (Note 6)	(11,499)	-
Accretion of decommissioning obligation (Note 7)	9,893	3,332
Loss on settlement of decommissioning obligations (Note 7)	29,000	-
Canada Business Account loan income (Note 8)	(10,000)	-
Foreign exchange	51	25,366
Decommissioning expenditures (Note 7)	(131,163)	(99,720)
Change in non-cash working capital		
Accounts receivable	12,291	(17,590)
Prepaid expenses and deposits	(49,972)	14,890
Trade and other payables	(89,050)	(20,092)
Cash flows used in operating activities	(237,031)	38,158
Financing activities		
Lease payments (Note 6)	(96,244)	(98,895)
Repayment of CEBA loan (Note 8)	(30,000)	-
Cash flows used in financing activities	(126,244)	(98,895)
Change in cash	(363,275)	(60,737)
Foreign exchange effect of USD denominated cash	(17)	990
Cash, beginning of period	1,652,783	1,997,996
Cash, end of period	$ 1,289,491	$ 1,938,249

See the accompanying notes to these condensed interim consolidated financial statements.

1. Nature of Operations

Capitan Investment Ltd. ("Capitan" or the "Company") was incorporated under the Business Corporations Act (Alberta) and changed its name from Sahara Energy Ltd. to Capitan on December 17, 2021. The Company's primary business is investment in real estate development projects. The Company is listed on the TSX Venture Exchange under the trading symbol CAI. The Company's registered address is 400, 444 – 7th Avenue SW, Calgary, Alberta.

As at September 30, 2023, JK Investment (Hong Kong) Co., Limited ("JK Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of Preparation

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, GC Capital Holdings Inc., and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29th, 2023.

3. Investments

In August 2021, the Company entered into two Investment Agreements with DMG Investments LLC. ("DMG"), a comprehensive real estate company specializing in finance, development, operations and property management in the United States: (1) a USD 2,000,000 investment in a joint venture real estate investment as a non-managing member in exchange for a preferred equity interest representing approximately 15.56% of the total equity interest in the Air Albany Project and (2) a USD 3,000,000 investment in a joint venture real estate investment as a non-managing member in exchange for a preferred equity interest representing approximately 21.85% of the total equity interest in the Auden Project. The Air Albany Project and the Auden Project are collectively referred to as "the Investments".

The Company has unconditional option to require the cash payment of its 10% guaranteed return on the Investments and the cash repurchase of all or part of its equity interest after an initial 12-month period or, in lieu of full repayment, upon the Company giving three months prior notice to DMG, the Company may continue to hold its position for up to an additional 12 months, to August 31, 2023. The 10% return and repurchase option granted to the Company in connection with the Investments is guaranteed by DMG.

The Company has provided written notice to extend its position for the Air Albany Project until December 2023 and the Auden Project until March 2024, during which time the Company will continue to earn a 10% return.

The September 30, 2023 carrying value of the Investments is $6,760,000 (USD 5,000,000) (December 31, 2022 – $6,772,000 (USD 5,000,000)). The fair value of the Investments approximates the carrying value due to the short period to the extended redemption dates of December 2023 and March 2024.

(in Canadian dollars)

4. Accounts Receivable

		September 30 2023		December 31 2022
Goods and Services Tax	$	2,565	$	2,115
Return on investment (Note 3)		225,951		226,352
Oil and gas marketers		–		12,340
	$	228,516	$	240,807

The Company's accounts receivable are aged as follows:

		September 30 2023		December 31 2022
Less than 60 days old	$	115,540	$	185,147
Over 60 days old		112,976		55,660
	$	228,516	$	240,807

Receivables for Goods and Services Tax ("GST") are typically collected within 30 days of filing the related GST return and are included in the less than 60-day aging category. Receivables for the Company's return on investment are accrued on a quarterly basis and are typically collected within 60 days with the exception of $112,976 (December 31, 2022 – $55,660) included in the over 60-day aging category. Receivables from oil and gas marketers are typically collected on the 25th day of the month following production and are included in the less than 60 days aging category.

The Company historically has not experienced any significant collection issues for accounts receivable.

5. Property and Equipment

		Right-of-use asset		Furniture and equipment		Developed and producing assets		Total
Cost								
Balance, December 31, 2022	$	247,113	$	70,950	$	4,537,027	$	4,855,090
Expired lease		(243,044)		–		–		(243,044)
Lease addition (Note 6)		385,028		–		–		385,028
Foreign exchange		1,682		–		–		1,682
Balance, September 30, 2023	$	390,779	$	70,950	$	4,537,027	$	4,998,756
Accumulated depletion and depreciation								
Balance, December 31, 2022	$	236,155	$	65,707	$	4,362,793	$	4,664,655
Depletion and depreciation		94,979		806		4,573		100,358
Expired lease		(243,044)		–		–		(243,044)
Foreign exchange		(3,597)		–		–		(3,597)
Balance, September 30, 2023	$	84,493	$	66,513	$	4,367,366	$	4,518,372
Net carrying amount								
As at December 31, 2022	$	10,958	$	5,243	$	174,234	$	190,435
As at September 30, 2023	$	306,286	$	4,437	$	169,661	$	480,384

(in Canadian dollars)

6. Lease Liability

The Company incurs lease payments related to office premises.

Balance, December 31, 2022	$	11,515
Rent incentive for expired lease		(11,499)
Addition		385,028
Imputed interest		25,660
Lease payments		(96,244)
Foreign exchange		5,347
Balance, September 30, 2023		319,807
Current portion		(119,410)
Long-term portion	$	200,397

In January 2023, the Company signed a lease agreement for office space at a new location commencing in February 2023 and ending in February 2026. The lease liability and related right-of-use asset (Note 5) for the office premises was determined using an incremental borrowing rate of 12% and a lease term of 37 months.

As at September 30, 2023, the remaining expected payments under the Company's office lease agreement are as follows:

	Annual USD	Annual CAD
Remainder of 2023	$ 26,840	$ 36,288
2024	110,312	149,143
2025	113,662	153,617
2026	19,268	26,050

In September 2023, the Company signed a 12-month lease for satellite office space for $4,261 (USD 3,152) per month. The Company has applied the practical expedients for short-term leases whereby related lease payments are recognized as expenses in the period incurred.

7. Decommissioning Obligations

Balance, December 31, 2022	$	380,309
Accretion		9,893
Expenditures		(131,163)
Loss on settlement of decommissioning obligations		29,000
Balance, September 30, 2023		288,039
Current portion		(217,189)
Long-term portion	$	70,850

As at September 30, 2023, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning obligations to be $301,066 (December 31, 2022 – $405,555). This amount will be substantially incurred over the next year (2022 – 1 year). The Company calculated the decommissioning obligations using an average risk-free discount rate of 4.01% per annum and a future inflation rate of 2% per annum.

During the nine months ended September 30, 2023, the Company incurred $131,163 of decommissioning expenditures to settle $102,163 of obligations resulting in a $29,000 loss on settlement of decommissioning obligations (Note 9).

(in Canadian dollars)

8. Canada Emergency Business Account Loan

In 2020, the Company received $40,000 of loan proceeds from a Canadian bank pursuant to the CEBA program, a Government of Canada COVID response program. 25% of the CEBA loan amount shall be forgiven if the remaining 75% of the loan is repaid on or before January 18, 2024. The Company repaid $30,000 of the loan in September 2023 and recognized $10,000 of CEBA loan income at that time.

9. Oil and Gas Operations

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Crude oil sales	$ –	$ 44,396	$ 12,526	$ 174,449
Royalties	–	(1,816)	(140)	(7,366)
	–	42,580	12,386	167,083
Production and operating expenses	(40,684)	(49,378)	(65,738)	(87,577)
Depletion (Note 5)	–	(12,465)	(4,573)	(46,052)
Accretion	(2,735)	(934)	(9,893)	(3,332)
Loss on settlement of decommissioning obligations (Note 7)	–	–	(29,000)	–
Net income (loss) from oil and gas operations	$ (43,419)	$ (20,197)	$ (96,818)	$ 30,122

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from Company-operated heavy oil properties.

As at September 30, 2023, accounts receivable (Note 4) included $nil from an oil and gas marketer (December 31, 2022 – $12,340).

10. Credit Risk

Management believes credit risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners.

Cash is held with highly rated banks in Canada and China. Therefore, the Company does not believe these financial instruments are subject to material credit risk.

The Company has assessed credit risk with respect to the Investments and has determined that there is no material credit risk based on the Company's review of financial and non-financial information for DMG and the Projects. The 10% return on the Investments and the redemption of the Investments is guaranteed by DMG (Note 3).

Accounts receivable credit risk is discussed in Note 4.

(in Canadian dollars)

The maximum exposure to credit risk at is as follows:

		September 30 2023		December 31 2022
Cash and cash equivalents	$	1,289,491	$	1,652,783
Investments (Note 3)		6,760,000		6,772,000
Accounts receivable (Note 4)		228,516		240,807
	$	8,278,007	$	8,665,590