Helium Evolution Incorporated

Annual Financial Statements

As at December 31, 2022 and December 31, 2021, the year ended December 31, 2022 and the period from incorporation on January 14, 2021 to December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Helium Evolution Incorporated

Opinion

We have audited the financial statements of Helium Evolution Incorporated (the "Company"), which comprise:

- the statements of financial position as at December 31, 2022 and December 31, 2021
- the statements of loss and comprehensive loss for the year ended December 31, 2022 and the period from incorporation on January 14, 2021 to December 31, 2021
- the statements of changes in shareholders' equity for the year ended December 31, 2022 and the period from incorporation on January 14, 2021 to December 31, 2021
- the statements of cash flows for the year ended December 31, 2022 and the period from incorporation on January 14, 2021 to December 31, 2021
- and notes to the 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 financial position of the Company as at December 31, 2022 and December 31, 2021, and its financial performance and cash flows for the year ended December 31, 2022 and the period from incorporation on January 14, 2021 to December 31, 2021 in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 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 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 year 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 of exploration and evaluation assets

Description of the matter

We draw attention to note 3, note 5 and note 8 to the financial statements. The Company assesses its exploration and evaluation assets to determine whether any indication of impairment exists at the end of each reporting period. Significant judgment is required in determining whether indicators of impairment exist, including factors and considerations such as the remaining period for which the Company has the right to explore, whether expenditures on further exploration and evaluation of helium properties are planned, whether commercially viable quantities of helium mineral resources have been discovered or whether data exists to suggest the carrying amount is unlikely to be recovered. At December 31, 2022, the Company has exploration and evaluation assets of $2,552,000. There were no impairment indicators for the exploration and evaluation assets as of December 31, 2022.

Why the matter is a key audit matter

We identified the evaluation of indicators of impairment of exploration and evaluation 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 assessment.

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 assessment by:

- Assessing the remaining period and right to explore for a selection of helium permits
- Assessing whether further expenditures for exploration and evaluation of helium properties are planned by examining the Company's internal documents and certain minutes of the meetings of the Board of Directors
- Assessing whether data exists to suggest the carrying amount of exploration and evaluation assets is unlikely to be recovered by examining external market and industry data, 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) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

- 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 Timothy Arthur Richards.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 24, 2023

Helium Evolution Incorporated

Statements of Financial Position

(thousands of Canadian Dollars)	As at December 31, 2022	As at December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	9,128	171
Restricted cash *(note 11)*	-	12,300
Accounts receivable *(note 18)*	263	46
Tubing and casing	992	-
Deposits and prepaid expenses	36	507
Total Current Assets	10,419	13,024
Non-Current Assets		
Property, plant and equipment *(note 7)*	51	80
Exploration and evaluation assets *(note 8)*	2,552	562
Total Non-Current Assets	2,603	642
Total Assets	13,022	13,666
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 16)*	163	197
Subscription receipts payable *(note 11)*	-	12,300
Lease obligations *(note 9)*	20	16
Total Current Liabilities	183	12,513
Non-Current Liabilities		
Lease obligations *(note 9)*	9	17
Decommissioning obligations *(note 10)*	34	-
Total Non-Current Liabilities	43	17
Total Liabilities	226	12,530
Shareholders' Equity		
Share capital *(note 11)*	19,216	1,915
Warrants *(note 11)*	1,425	552
Contributed surplus	930	81
Deficit	(8,775)	(1,412)
Total Shareholders' Equity	12,796	1,136
Total Liabilities and Shareholders' Equity	13,022	13,666

See accompanying notes to the financial statements.

Commitments *(notes 8 and 17)*
Subsequent Events *(note 20)*

Original "*signed*" by
James Baker, Director

Original "*signed*" by
Greg Robb, President, CEO & Director

Helium Evolution Incorporated

Statements of Loss and Comprehensive Loss

(thousands of Canadian Dollars, except number of shares and per share amounts)	Year ended December 31, 2022	Period ended December 31, 2021
Expenses		
Exploration and evaluation *(note 8)*	4,478	728
Impairment expense on tubing and casing	8	-
Share-based compensation *(note 14)*	526	52
Listing expense *(note 6)*	1,142	-
Transaction costs *(note 6)*	96	-
Interest (income) expense (net)	(155)	1
Depletion and depreciation *(note 7)*	51	10
General and administrative *(note 13)*	1,217	621
Total expenses	7,363	1,412
Net loss and comprehensive loss	(7,363)	(1,412)
Weighted average number of shares outstanding - basic and diluted	78,397,100	25,495,726
Net loss per common share - basic and diluted	(0.09)	(0.06)

See accompanying notes to the financial statements.

Helium Evolution Incorporated

Statements of Cash Flows

(thousands of Canadian Dollars)	Year ended December 31, 2022	Period ended December 31, 2021
Cash provided by (used in):		
Operating activities:		
Net loss	(7,363)	(1,412)
Exploration and evaluation *(note 8)*	4,478	728
Impairment expense	8	-
Share-based compensation *(note 14)*	526	52
Listing expense *(note 6)*	1,142	-
Depletion and depreciation *(note 7)*	51	10
Other	-	11
Change in non-cash working capital *(note 15)*	(285)	113
Cash used in operating activities	(1,443)	(498)
Financing activities:		
Shares issued, net of share issuance costs *(note 11)*	17,640	1,270
Lease obligations *(note 9)*	(19)	-
Proceeds from promissory note *(note 19)*	1,500	-
Payment of promissory note *(note 19)*	(1,500)	-
Change in non-cash working capital *(note 15)*	(142)	-
Cash provided by financing activities	17,479	1,270
Investing activities:		
Property, plant and equipment *(note 7)*	(5)	(58)
Exploration and evaluation assets *(note 8)*	(6,111)	(541)
Tubing and casing, net	(1,000)	-
Change in non-cash working capital *(note 15)*	37	(2)
Cash used in investing activities	(7,079)	(601)
Net change in cash and cash equivalents	8,957	171
Cash and cash equivalents, beginning of year	171	-
Cash and cash equivalents, end of year	9,128	171
Cash and cash equivalents is comprised of:		
Cash	837	171
Cancellable guaranteed investment certificates	8,291	-

See accompanying notes to the financial statements.

Helium Evolution Incorporated

Statements of Changes in Shareholders' Equity

(thousands of Canadian Dollars, except number of shares)	Number of Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2022	34,184,280	1,915	552	81	(1,412)	1,136
Shares issued, net of share issuance costs *(note 11)*	61,849,694	17,301	873	-	-	18,174
Share-based compensation *(note 14)*	-	-	-	849	-	849
Net loss for the year	-	-	-	-	(7,363)	(7,363)
Balance, December 31, 2022	96,033,974	19,216	1,425	930	(8,775)	12,796

(thousands of Canadian Dollars, except number of shares)	Number of Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 14, 2021	-	-	-	-	-	-
Shares issued	34,184,280	1,915	85	-	-	2,000
Warrants issued	-	-	467	-	-	467
Share-based compensation *(note 14)*	-	-	-	81	-	81
Net loss for the period	-	-	-	-	(1,412)	(1,412)
Balance, December 31, 2021	34,184,280	1,915	552	81	(1,412)	1,136

See accompanying notes to the financial statements.

Notes to the Financial Statements
As at December 31, 2022 and December 31, 2021, for the year ended December 31, 2022 and the period from incorporation on January 14, 2021 to December 31, 2021

1. Organization and Nature of the Business

Helium Evolution Incorporated ("**HEVI**" or the "**Company**"), formerly Duckhorn Ventures Ltd. ("**Duckhorn**"), is a public company trading on the TSX Venture Exchange ("**TSXV**") under the symbol HEVI. Duckhorn was incorporated under the *Business Corporations Act* (British Columbia) on March 25, 2019. The Company is in the early stages of exploration for helium as a resource and has not yet determined whether its helium properties contain deposits that are economically recoverable.

The Company was formed following the amalgamation of a private company of the same name being Helium Evolution Incorporated ("**Helium Evolution Private**") and Duckhorn (the "**Amalgamation**"). Helium Evolution Private was incorporated on January 14, 2021 under the Business Corporations Act (Alberta). On March 16, 2022, Helium Evolution Private and Duckhorn entered into a business combination agreement, resulting in the reverse takeover of Duckhorn by Helium Evolution Private, including a change of control of Duckhorn. Following completion of the Amalgamation, Helium Evolution Private shareholders held approximately 96% of the outstanding shares of the Company and the board of directors (the "**Board**") and key management of the Company are substantially the same as Helium Evolution Private. As a result, the transaction has been accounted for as a reverse acquisition with Helium Evolution Private being the acquirer for accounting purposes. Helium Evolution Private is the continuing entity and accordingly, the presentation of the comparative period information is that of Helium Evolution Private (see note 6).

Helium Evolution Incorporated commenced trading on the TSXV on March 30, 2022 under the symbol HEVI.

The Company's principal and office address and address of its records is 400, 505 – 3 Street SW, Calgary, Alberta, Canada, T2P 3B6.

2. Basis of Preparation

The annual financial statements (the "**financial statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The Company's financial statements are expressed in thousands of Canadian dollars, unless otherwise stated. The presentation currency is Canadian dollars, which is the functional currency of the Company and its subsidiary, which was amalgamated during the year ended December 31, 2022.

These financial statements have been prepared using the historical cost convention on an accrual basis except for, when outstanding, certain financial instruments which have been measured at fair value. In the opinion of management, all adjustments, including accruals, considered necessary for a fair presentation have been included. Certain prior year disclosures have been adjusted to reflect current year presentations. The financial statements were authorized for issue by the Board on April 24, 2023.

3. Significant Accounting Policies

The following accounting policies have been applied in these financial statements:

a) Basis of consolidation
i. Subsidiaries
Subsidiaries are entities controlled by the Company. The Company "controls" an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

ii. Jointly owned assets
Some of the Company's helium activities involve jointly owned assets. The financial statements include the Company's share of these jointly owned assets and its proportionate share of the relevant revenue and related costs.

iii. Transactions eliminated on consolidation
All intercompany balances, transactions and earnings or losses are eliminated upon consolidation. As of December 31, 2022, all subsidiaries have been amalgamated with Helium Evolution Incorporated.

b) Fair value measurement
Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations are those with inputs for the asset or liability that are not based on observable market data.

At each reporting date, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the financial statements based on the lowest level of input that is significant to the fair value measurement as a whole. Assessment of the significance of a particular input to the fair value measurement requires judgement that may affect the placement within the fair value hierarchy.

c) Financial instruments
Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following three categories: amortized cost, fair value through other comprehensive income ("**FVOCI**") or fair value through profit or loss ("**FVTPL**"). Cash and cash equivalents, restricted cash, and accounts receivable are classified as financial assets at amortized cost and reported at amortized cost. Accounts payable and accrued liabilities and subscription receipts payable are measured at amortized cost using the effective interest method. Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial instruments are measured at fair value and changes in fair value are recognized in the statement of loss and comprehensive loss. All other financial instruments are measured at fair value with changes in fair value recorded at FVTPL depending on their initial classification and measurement. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

d) Exploration and evaluation assets
Exploration and Evaluation ("**E&E**") costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, certain overhead charges including cash and share-based compensation and the estimate of any related decommissioning costs. Costs incurred prior to obtaining the legal right to explore are recognized in profit or loss as incurred. Assets classified as E&E may have sales of helium associated with production from test wells. These operating results are recognized in the statements of loss. A depletion charge, recognized as E&E expense, is recognized on these wells. Non-producing assets classified as E&E are not depleted.

When a project classified as E&E is determined to be technically feasible and commercially viable, the applicable value is reclassified from E&E assets to property, plant and equipment ("**PP&E**") on the statement of financial position. The assets are assessed for impairment prior to such transfer.

Farm outs within the exploration and evaluation phase

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farmout arrangements, but redesignates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess over those costs accounted for by the farmor as a gain on disposal.

e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits and similar-type instruments that are readily convertible to a known amount of cash throughout their term.

f) Tubing and casing

Tubing and casing inventories are valued at the lower of cost or net realizable value on a weighted average cost basis. The cost of inventory includes all costs incurred in the normal course of business to bring each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any expected selling costs. If the carrying amount exceeds net realizable value, an impairment is recognized. The impairment may be reversed in a subsequent period if the circumstances which caused it no long exist and the inventory is still on hand.

g) Property, plant and equipment assets

Items of PP&E, which include corporate assets and helium development and production assets, are measured at cost less accumulated depletion, depreciation and amortization ("**DD&A**") and accumulated impairment losses. Development and production assets are grouped into cash generating units ("**CGUs**") for impairment testing.

h) Impairment

i. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired by measuring the asset's expected credit loss ("**ECL**"). Accounts receivables are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable.

The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to HEVI and the cash flows the Company expects to receive.

In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized in the statements of loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.
All impairment losses are recognized in the statements of loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

ii. Non-financial assets
The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated via an impairment test.

E&E assets are assessed for impairment when they are reclassified to PP&E, and at the end of each reporting period. In determining whether indicators of impairment exist, including factors and considerations such as the remaining period for which the Company has the right to explore, whether expenditures on further exploration and evaluation of helium properties are planned, whether commercially viable quantities of helium mineral resources have been discovered or whether data exists to suggest the carrying amount is unlikely to be recovered. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, or CGUs. The recoverable amount of an asset or a CGU is the greater of its value-in-use ("**VIU**") and its fair value less costs of disposal ("**FVLCD**"). FVLCD is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties.

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of DD&A, if no impairment loss had been recognized.

i) Depletion, Depreciation and Amortization
PP&E and, where applicable, E&E are organized into groups of assets with similar useful lives for the purposes of performing DD&A calculations. Depletion expense is measured using the unit-of-production method based on: total estimated proved plus probable reserves; total capitalized costs plus estimated future development costs of proved plus probable reserves, including future estimated decommissioning costs; and relative volumes of reserves and production, before royalties.

Depreciation and amortization of corporate assets is recognized on a straight-line basis over the estimated useful lives of the assets, which are two years.

j) Leased assets
When HEVI is party to a lease arrangement as the lessee, it recognizes a right-of-use asset ("**ROU asset**") and a corresponding lease obligation on the date that a leased asset becomes available for use. Interest associated with the lease obligation is recognized over the lease period with a corresponding increase to the underlying lease obligation.

ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on ROU assets is recognized in depletion and depreciation. ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include fixed lease payments, variable lease payments based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if HEVI is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any.

The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

Short-term leases and leases of low-value assets are not recognized on the statement of financial position and lease payments are instead recognized in the financial statements as incurred. For certain classes of leases, HEVI does not separate lease and non-lease components, accounting for these leases as a single lease component.

k) Share-based compensation

The grant date fair value of share options granted to employees is recognized as share-based compensation expense, with a corresponding increase in contributed surplus, over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of instruments that vest.

l) Provisions

A provision is recognized if, because of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

m) Decommissioning obligations

The Company’s activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management’s best estimate of the expenditures required to settle the obligation, using a risk-free interest rate. After the initial measurement, the obligation is adjusted, at the end of each period, to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs, whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

n) Share capital

Common shares are classified as equity. Costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of tax.

o) Revenue

Revenue from the sale of helium is measured based on the consideration specified in contracts with customers and is recognized as revenue when the Company transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer.

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Tariffs, tolls and other fees charged to other entities for use of pipelines and facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

p) Interest income and expense

Interest expense is comprised of interest on borrowings and leases and decommissioning obligations. Interest income is comprised of interest on cash and cash equivalents.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in earnings using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

q) Income tax

Provision for, or recovery, of income tax comprising of current and deferred income taxes is recognized in the statements of loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

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

r) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the net income or loss attributable to shareholders and the weighted average number of common shares outstanding during the period for the effects of dilutive instruments such as options or warrants. The number of shares included is computed using the treasury stock method, whereby the common shares are assumed to be purchased at the average market price.

s) Business combination

The Company accounts for business combinations using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets and liabilities are measured and recognized at their fair values at the date of the acquisition, with the exception of income taxes and lease obligations. Any deferred tax asset or liability arising from a business combination is recognized at the date of acquisition. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the financial statements from the closing date of the acquisition.

4. New accounting standards and interpretations not yet adopted

In February 2021, the IASB issued narrow-scope amendments to IAS 1, *Presentation of Financial Statements* ("**IAS 1**"), IFRS Practice Statement 2, *Making Materiality Judgements* and IAS 8, *Accounting*

Policies, Changes in Accounting Estimates and Errors. The amendments are effective for annual periods beginning on or after January 1, 2023, although earlier application is permitted. The amendments will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarify how to distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impacts of the amended standards.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective on January 1, 2024.

In May 2021, the IASB issued targeted amendments to IAS 12, *Income Taxes*. The amendments are effective for annual periods beginning on or after January 1, 2023, although earlier application is permitted. With a view to reducing diversity in reporting, the amendments will clarify that companies are required to recognize deferred taxes on transactions where both assets and liabilities are recognized, such as with leases and decommissioning obligations. The Company is currently assessing the impacts of the amended standards.

Climate and emission related reporting standards are constantly evolving. The International Sustainability Standards Board has issued an IFRS *Sustainability Disclosure Standard* with the goal to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. The Canadian Securities Administrators have also issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters* which details the additional reporting requirements for Canadian public companies. If the Company is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to: attract and retain skilled employees; obtain regulatory permits licenses, registrations, approvals and authorizations from various governmental authorities; and the Company's ability to raise capital may be adversely affected. The Company continues to monitor progress on these reporting requirements and has not yet quantified the cost to comply with these standards.

5. Management Judgements and Estimation Uncertainty

The timely preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. These estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty in applying accounting principles that have the most significant effect on the amounts recognized in the Financial Statements are included in the notes.

In the process of applying the Company's accounting policies, significant estimates and judgements have been made, of which the following may have the most significant effect on the amounts recognized in the financial statements:

Identification of cash generating units

The Company's assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs is based on management's judgment regarding shared infrastructure, geographical proximity and similar exposure to market risk and materiality.

Exploration and evaluation assets

The application of the Company's accounting policy for E&E requires management to make certain judgments as to future events and circumstances as to whether economic quantities of helium have been found in assessing economic and technical feasibility.

The Company assesses its E&E assets to determine whether any indication of impairment exists at the end of each reporting period. Significant judgment is required in determining whether indicators of impairment exist, including factors and considerations such as the remaining period for which the Company has the right to explore, whether expenditures on further exploration and evaluation of helium properties are planned, whether commercially viable quantities of helium mineral resources have been discovered or whether data exists to suggest the carrying amount is unlikely to be recovered.

Deferred income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets, if any, are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable income. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in earnings or loss in the period in which the change occurs.

Lease arrangements

Management applies judgement in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgement and estimation in various areas specific to the arrangement, including lease term and discount rate. The incremental borrowing rates are based on judgments including economic environment, term, currency and the underlying risk inherent to the asset. The carrying balance of the ROU assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term. Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Warrants and share options

All equity-settled, share-based awards, including warrants and share options, issued by the Company are recorded at fair value using the Black-Scholes pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Commitments and contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Climate reporting regulations

Climate change and the transition to a lower-carbon economy from carbon-based sources to alternative energy were considered in preparing the financial statements. These may have significant impacts on the currently reported amounts of the Company’s assets and liabilities and on similar assets and liabilities that may be recognized in the future.

6. Reverse Takeover Transaction

On March 16, 2022, Duckhorn acquired all the issued and outstanding class A common shares of Helium Evolution Private through a wholly owned subsidiary of the Company that amalgamated with Helium Evolution Private, which resulted in a reverse takeover of the Company by the former shareholders of Helium Evolution Private.

In connection with the Amalgamation and pursuant to the terms of the Amalgamation, Duckhorn changed its name to Helium Evolution Incorporated and issued 75,405,141 common shares to the shareholders of Helium Evolution Private. Immediately following the Amalgamation, there were 78,738,474 common shares issued and outstanding, with the former Helium Evolution Private shareholders holding approximately 96% of the issued and outstanding common shares, and the Board and key management of the Company being substantially the same as Helium Evolution Private.

The Amalgamation was treated as a reverse takeover ("**RTO**") for accounting purposes based on the terms of the Amalgamation. In accordance with IFRS, Duckhorn did not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination but a capital transaction of Duckhorn in substance with Helium Evolution Private being the continuing entity from an accounting perspective.

The fair value of the net assets (liabilities) that were acquired pursuant to the RTO were as follows:

Consideration:	
Fair value of the common shares of Duckhorn (3,333,333 common shares)	1,000
Total consideration	**1,000**
Assets (liabilities) acquired:	
Cash	-
Accounts receivable	7
Accounts payable and accrued liabilities	(149)
Net liabilities acquired	(142)
Excess of purchase price consideration over net liabilities acquired, being a listing expense	**1,142**

Acquisition costs of $96,000 were incurred by the Company and have been excluded from the above consideration paid. These costs have been recorded as transaction costs in the Company's statement of loss and comprehensive loss for the year ended December 31, 2022.

7. Property, Plant and Equipment Assets

Cost	Total
Balance, January 14, 2021	-
Additions	58
Right-of-use asset additions	32
Balance, December 31, 2021	90
Additions	5
Right-of-use asset additions	17
Balance, December 31, 2022	**112**
Accumulated depletion and depreciation	Total
Balance, January 14, 2021	-
Depletion and depreciation	10
Balance, December 31, 2021	10
Depletion and depreciation	51
Balance, December 31, 2022	**61**
Net book value	Total
Balance, December 31, 2021	80
Balance, December 31, 2022	**51**

As at December 31, 2022, PP&E is comprised of office equipment with a net book value of $24,000 (December 31, 2021 – $51,000) and ROU assets with a net book value of $27,000 (December 31, 2021 – $29,000).

8. Exploration and Evaluation Assets

Cost	Total
Balance, January 14, 2021	-
Additions	562
Balance, December 31, 2021	562
Additions	6,468
E&E expense	(4,478)
Balance, December 31, 2022	**2,552**

The Company holds helium exploration permits in Saskatchewan with an initial 3-year term. The December 31, 2022 additions include $323,000 of non-cash share-based compensation (December 31, 2021 – $29,000) and $34,000 of non-cash decommissioning obligations (December 31, 2021 – $nil). During the year ended December 31, 2022, $4,478,000 of E&E assets were recognized in E&E expense, due to the overall negative results of the drilling program.

The Company has annual lease expenditure commitments as follows: 2023 – $210,000, 2024 – $452,000, 2025 - $564,000 and annual permit expenditure commitments as follows: 2023 – $243,000 2024 – $403,000 and 2025 - $2,439,000. Permit expenditures can be grouped and carried forward to future years if the expenditure amount is greater than the minimum expenditure required. If the above commitments are not satisfied, the Company will relinquish the associated helium permits.

Pursuant to a Royalty Agreement, a 3.0% gross overriding royalty (“**GORR**”) on the Company’s Saskatchewan helium permits applied for prior to March 30, 2022 was granted to certain directors, officers and a consultant of the Company or companies controlled by such individuals. As a result, the Company assigned a value of $5,000 to E&E expense for the year ended December 31, 2022 (period ended December 31, 2021 –$8,000).

At December 31, 2022, the Company has E&E assets of $2,552,000. There were no impairment indicators for the exploration and evaluation assets as of December 31, 2022.

9. Lease Obligations

	Total
Balance, January 14, 2021	-
Additions	32
Interest expense	1
Balance, December 31, 2021	33
Additions	17
Lease payments	(21)
Balance, December 31, 2022	**29**
Current portion of lease obligations	**20**
Non-current portion of lease obligations	**9**

	December 31, 2022	December 31, 2021
Lease payments	21	-
Interest payments	(2)	-
Total cash outflow	**19**	**-**

The Company has lease liabilities for contracts related to office space and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The discount rate applied during the year ended December 31, 2022 was 10.0% (December 31, 2021 – 10.0%).

10. Decommissioning Obligations

	December 31, 2022	December 31, 2021
Decommissioning obligations, beginning of year	**-**	-
Additions	**33**	-
Change in estimates	**1**	-
Accretion	**-**	-
Decommissioning obligations, end of year	**34**	**-**

The Company's decommissioning obligations result from its ownership interest in helium assets currently comprised of well sites. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years.

The following significant assumptions were used to estimate the decommissioning obligations:

	December 31, 2022	December 31, 2021
Undiscounted, uninflated cash flows	**36**	-
Risk free rate	**3.94%**	-
Inflation rate	**3.25%**	-
Timing of cash flows	**1.8 years**	-

11. Share Capital

The authorized capital of HEVI consists of an unlimited number of common and an unlimited number of preferred shares, issuable in series with no par value.

The following table details the number of common shares issued and outstanding as at December 31, 2022:

	Number of Class A Common	Share Equity
Shares issued for cash and E&E expense [1]	15,000,000	750
Shares issued for services rendered[2]	200,000	10
Shares issued for cash[3]	15,800,000	790
Shares issued for cash[4]	1,000,000	150
Shares issued for cash[5]	2,000,000	215
Balance, December 31, 2021	34,000,000	1,915
Exchanged on reverse takeover[6]	(34,000,000)	(1,915)
Issued on reverse takeover[6]	34,184,280	1,915
Shares issued in exchange for subscription receipts[7]	41,220,861	12,300
Shares issued as part of Duckhorn reverse takeover *(note 6)*	3,333,333	1,000
Shares issued as part of June 28, 2022 private placement[8]	17,295,500	6,074
Share issuance costs	-	(2,073)
Balance, December 31, 2022	**96,033,974**	**19,216**

[1] On January 14, 2021, the Company closed a non-brokered private placement with management and executive members of the Company. Under the terms of the private placement, the Company issued 15 million shares at $0.05 per share. Payment consisted of $30,000 in cash and the settlement of intellectual property obligations and other rights totaling $720,000 which was pre-exploration and recorded as exploration and evaluation expense.

[2] On May 14, 2021, the Company settled a $0.001 million general and administrative expenditure through the issuance of 0.2 million shares at $0.05 per share.

[3] Between May 14, 2021 and August 9, 2021, the Company closed a non-brokered private placement for gross proceeds of $0.8 million. Under the terms of the private placement 15.8 million shares were issued at $0.05 per share.

[4] On August 18, 2021, the Company closed a non-brokered private placement for gross proceeds of $0.2 million. Under the terms of the private placement, the Company issued 1.0 million shares at $0.15 per share.

[5] On August 30, 2021, the Company closed a non-brokered private placement which raised gross proceeds of $0.3 million. Under the terms of the private placement, the Company issued 2.0 million shares at $0.15 per unit, comprised of 2.0 million shares and

2.0 million warrants with an exercise price of $0.30 per share and a term of 24 months. The warrants contain an acceleration option whereby management can notify the warrant holders of the Company's intent to convert the warrants into common shares should the common shares trade at a price greater than $0.75 per share over a period of 10 days on a public exchange. Based on the relative fair value of the unit, $0.2 million was ascribed to share capital and $0.09 million was ascribed to warrant capital.

[6] In conjunction with the closing of the Amalgamation as detailed in note 6, each common share, option and warrant in Helium Evolution Private were subsequently exchanged for 1.00542 common shares in the capital of the Company.

[7] On November 10, 2021, Helium Evolution Private closed a non-brokered private placement (the "**November 2021 Offering**") of subscription receipts (the "**Subscription Receipts**") for total gross proceeds of $12.3 million. In connection with the November 2021 Offering, Helium Evolution Private issued 40,998,636 Subscription Receipts at a price of $0.30 per Subscription Receipt, with each Subscription Receipt automatically converting into one common share for no additional consideration or action on the part of the holder. Each common share was subsequently exchanged for 1.00542 common shares in the capital of Duckhorn in accordance with the terms of the Amalgamation. As at December 31, 2021, the Subscription Receipts were included in restricted cash and subscription receipts payable.

[8] On June 28, 2022, HEVI closed a strategic investor private placement and brokered and non-brokered private placements (the "**June 2022 Offerings**") for total gross proceeds of $6.9 million ($6.4 million, net of share issuance costs). Of the gross proceeds, $6.1 million ($5.5 million, net of share issuance costs) was allocated to share capital and $0.9 million was allocated to warrant capital. In connection with the June 2022 Offerings, HEVI issued 17,295,500 units comprised of one common share and one-third of a warrant.

The following table details the number of warrants issued and outstanding at December 31, 2022:

	Number of Warrants	Warrant Equity
Balance, December 31, 2021[1]	4,846,124	552
Warrants issued as part of June 28, 2022 private placement[2]	5,765,152	845
Warrants issued as part of June 28, 2022 private placement[2,3]	175,000	28
Balance, December 31, 2022	**10,786,276**	**1,425**

[1] Each warrant reflects the 1.00542 exchange ratio in accordance with the terms of the Amalgamation.

[2] In connection with the June 2022 Offerings, the warrants were valued using the Black-Scholes pricing model and the following inputs: exercise price of $0.70 per share, expected term of 24 months, annualized volatility based on publicly traded peer companies of 103%, a risk-free rate of 3.1%, and zero expected dividends. The weighted average Black-Scholes fair value is $0.16 per warrant with a relative fair value ascribed to the warrants.

[3] On June 28, 2022, HEVI issued 175,000 warrants to a finder in connection with the strategic investor private placement.

The number of warrants issued and outstanding, weighted average exercise price and weighted average remaining life are as follows:

	Number of Warrants	Weighted Average Exercise Price ($/share)	Weighted Average Remaining Life (years)
December 31, 2021	4,846,124	0.30	0.7
Issued	5,940,152	0.70	1.5
December 31, 2022	**10,786,276**	**0.52**	**1.1**

At December 31, 2022, all warrants outstanding are exercisable.

12. Income Taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to net loss before income taxes as follows:

	December 31, 2022	December 31, 2021
Loss before taxes	**(7,363)**	(1,412)
Combined federal and provincial tax rate	**23%**	23%
Expected income tax recovery	**(1,693)**	(325)
Change in unrecognized deferred tax assets	**1,308**	147
Share-based compensation	**121**	12
Non-deductible listing costs and other	**264**	166
Deferred income tax expense	**-**	**-**

Under the terms of the January 14, 2021 share issuance as detailed in note 11, the Company incurred $720,000 of expenditures without tax basis.

A deferred tax asset has not been recognized because it is not considered probable that future taxable profits will be available against which these temporary differences could be utilized. The components of the deferred income tax asset and liabilities as at December 31, 2022 and December 31, 2021 are as follows:

	December 31, 2022	December 31, 2021
Deferred tax liabilities:		
E&E and PP&E in excess of tax basis	**(599)**	(145)
Other	**(23)**	-
Deferred tax assets:		
Lease obligations	**7**	7
Decommissioning obligations	**8**	-
Non-capital losses	**2,585**	285
Other	**21**	-
Less: unrecognized deferred income tax	**(1,999)**	(147)
Deferred income tax asset (liability)	**-**	**-**

The following table provides a continuity of the deferred income tax asset (liability):

	December 31, 2021	Recognized in profit or loss	Recognized in equity	December 31, 2022
PP&E	(145)	(454)	-	(599)
Other	-	(23)	-	(23)
Lease obligations	7	-	-	7
Decomissioning obligations	-	8	-	8
Non-capital losses	285	2,300	-	2,585
Other	-	21	-	21
Unrecognized deferred income tax	(147)	(1,852)	-	(1,999)
Deferred income tax asset (liability)	**-**	**-**	**-**	**-**

The Company has tax pools of $13.1 million available for deduction against future taxable income at December 31, 2022 ($1.4 million at December 31, 2021).

13. General and Administrative Expense

Details of the Company's general and administrative expenditures for the year ended December 31, 2022 and the period from January 14, 2021 to December 31, 2021 are as follows:

	December 31, 2022	December 31, 2021
Consulting	**43**	24
Legal	**103**	317
Office	**279**	83
Investor relations	**432**	85
Salaries and benefits	**246**	77
Professional fees	**164**	35
Capitalized G&A	**(50)**	-
General and administrative expense	**1,217**	**621**

14. Share Option Plan

The Company has an incentive Share Option Plan (the "**Option Plan**") for directors, officers, employees, and consultants, under which the Company may issue share options to purchase common shares of the Company provided that the amount of incentive share options which may be granted and outstanding under the Option Plan at any time shall not exceed 10% of the then issued and outstanding common shares of the Company.

The number of share options issued and outstanding, weighted average exercise price and weighted average remaining life is as follows:

	Number of Options	Weighted Average Exercise Price ($/share)	Weighted Average Remaining Life (years)
December 31, 2021[1]	3,418,428	0.30	3.9
Issued	5,210,000	0.37	4.6
Forfeited	(1,002,710)	0.34	4.2
December 31, 2022	**7,625,718**	**0.34**	**4.3**

[1] Each option issued prior to the Amalgamation reflects the 1.00542 exchange ratio in accordance with the terms of the Amalgamation.

The number of share options exercisable and the weighted average exercise price is as follows:

	Exercisable Options	Weighted Average Exercise Price ($/share)
December 31, 2021	-	-
December 31, 2022	**1,866,287**	**0.33**

The fair value of options granted is measured using the Black-Scholes pricing model. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility based on publicly available information for similar companies, weighted average expected life, estimated forfeiture rate, expected dividends, and the risk-free interest rate. The fair value is amortized to share-based compensation expense and/or capitalized over the option vesting period with a corresponding offset to contributed surplus. The options vest equally every six months for a period of thirty months from the grant date.

The fair value of the options on the date of issuance was determined using the following weighted average Black-Scholes pricing model inputs:

	December 31, 2022	December 31, 2021
Share price	0.37	0.30
Risk-free interest rate	3.15%	1.45%
Expected life (years)	5	5
Expected volatility	101%	106%
Forfeiture rate	9.0%	0.0%
Expected dividends	Nil	Nil
Fair value	0.28	0.23

15. Supplemental Cash Flow Information

	December 31, 2022	December 31, 2021
Accounts receivable	(211)	(46)
Deposits and prepaid expenses[1]	4	(40)
Accounts payable and accrued liabilities	(183)	197
Change in non-cash working capital	**(390)**	**111**
Allocated to:		
Operating	(285)	113
Financing	(142)	-
Investing	37	(2)
Change in non-cash working capital	**(390)**	**111**

[1] The December 31, 2021 deposits and prepaid expenses balance included a non-cash amount of $467,000, associated with the Black-Scholes fair value of the broker warrants issued as part of the November 2021 Offering. This amount was transferred out of deposits and prepaid expenses upon release of the escrowed funds and recorded to warrant equity and is excluded from the supplemental cash flow calculation.

16. Risk and Capital Management

The Company's activities expose it to a variety of financial and non-financial risks inherent in the business. Financial risks include: equity price, commodity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company.

Credit risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss.

The Company's maximum exposure to credit risk is the sum of the carrying values of its cash and cash equivalents and accounts receivable. As at December 31, 2022, the Company's accounts receivables consisted of sales taxes paid on general and administrative and capital expenditures. To mitigate the credit risk on its cash and cash equivalents, the Company maintains its cash and cash equivalents balance with a major Canadian chartered bank.

Market risk

Market risk is the risk that the fair value or future cash flow from operating activities of the Company's financial instruments will fluctuate because of changes in market prices. This could include changes in market conditions, such as commodity prices, foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities as they come due. The Company's financial liabilities consist of accounts payable and accrued liabilities.

Accounts payable consists of invoices payable to trade suppliers for general and administrative activities and E&E expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash which is used to finance all operating and capital expenditures.

The timing of undiscounted cash outflows relating to the financial liabilities outstanding at December 31, 2022 are outlined in the table below:

	1 year	2 years	3 years	> 3 years	Total
Accounts payable and accrued liabilities	163	-	-	-	163
Lease obligations	20	5	2	2	29
Total	183	5	2	2	192

HEVI anticipates having adequate cash on hand and funds flow to meet its contractual obligations and commitments and discharge its liabilities as they come due. In order to ensure it has sufficient liquidity, the Company may access debt or capital markets. Management anticipates that these efforts will provide enough financial flexibility to meet the Company's contractual obligations and commitments and discharge its liabilities, until it generates cash flows from operations.

Capital management

The Company's capital structure includes shareholders' equity and working capital. HEVI's general policy is to maintain a strong financial position to allow for exploration of its existing land base. The Company's objective is to maintain a capital structure that allows it to finance its business strategy using primarily internally generated cash flow and equity markets, and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

HEVI monitors its capital structure and makes adjustments on an ongoing basis in order to maintain the flexibility needed to achieve the Company's long-term objectives. To manage its capital structure, the Company may adjust capital spending, issue new equity, issue new debt or obtain alternative financing. To date, the Company's main source of funding has been the issuance of equity and warrant securities for cash, through private placements.

The Company is in the process of exploring its helium properties and has not yet determined whether these properties contain deposits that are economically recoverable. The Company's continuing operations and underlying value and recoverability of the amounts shown for E&E assets are entirely dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its helium property interests and on future profitable production or proceeds from the disposition of the helium property interests. These and other factors may adversely affect the Company's liquidity and ability to generate income and future cash flows.

As at December 31, 2022, the Company had a positive working capital balance of $10.2 million (December 31, 2021 - $0.5 million), inclusive of tubing and casing of $1.0 million which was pre-purchased and not utilized.

17. Commitments

The Company holds helium permits that require minimum expenditures on an annual basis (see note 8).

The Company entered into a two-year office lease agreement, commencing November 1, 2021, and ending October 31, 2023, and has entered into certain office equipment leases. The lease commitments as at December 31, 2022 are as follows:

	1 year	2 years	3 years	> 3 years	Total
Lease obligations	20	5	2	2	29

18. Financial Instruments

At December 31, 2022, the Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities.

The Company's cash and cash equivalents are classified as Level 1 measurements. The Company has no level 2 or level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

The carrying value of the Company's accounts receivable and accounts payable and accrued liabilities at December 31, 2022 approximate their approximate their respective fair values due to the short-term nature of these instruments.

19. Related Party Transactions

The following table summarizes transactions with related parties:

	December 31, 2022	December 31, 2021
Exploration and evaluation expense – management	**5**	728

Pursuant to a royalty agreement, a 3.0% GORR on the Company's Saskatchewan helium permits applied for prior to March 30, 2022 was granted to certain directors, officers and a consultant of the Company or companies controlled by such individuals. As a result, the Company assigned a value of $5,000 to E&E expense in the year ended December 31, 2022 (December 31, 2021 - $8,000). Additionally, under the terms of the January 14, 2021 share issuance to certain management and directors, the Company recorded $720,000 as pre-exploration expenditure under E&E expense for the period ended December 31, 2021.

On January 12, 2022, the Company entered into a secured promissory note (the "**Promissory Note**") with a current director of the Company in the amount of $1.5 million with an annualized interest rate of 10%. The Promissory Note was secured by a general security agreement between the parties providing the lending party with security over the assets of the Company. The Promissory Note was repaid in full on March 18, 2022, along with total interest of $38,000, and the security was subsequently discharged.

Compensation of key management personnel of the Company

The remuneration of directors and members of key management personnel during the period presented are as follows (including capitalized expenditures):

	December 31, 2022	December 31, 2021
Salaries and benefits	**358**	137
Share-based compensation	**662**	61
Key management compensation	**1,020**	**198**

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors and executive employees of the Company.

20. Subsequent Events

Subsequent to December 31, 2022, the Company issued 1,950,000 stock options to certain directors and officers of the Company.

Subsequent to December 31, 2022, the Company sold $89,000 of tubing and casing that it held as a short-term asset at December 31, 2022.

Subsequent to December 31, 2022, the Company spent $591,000 on additional 2D seismic.