The following Management's Discussion and Analysis ("**MD&A**") as provided by the management of Helium Evolution Incorporated ("**HEVI**" or the "**Company**") (formerly Duckhorn Ventures Ltd. ("**Duckhorn**")) is dated August 22, 2023 and should be read in conjunction with HEVI's unaudited interim condensed financial statements and related notes as at June 30, 2023 and for the three and six month periods ended June 30, 2023 and June 30, 2022 (the "**Financial Statements**") and the audited financial statements and related notes as at and for the year ended December 31, 2022, and as at and for the period from incorporation on January 14, 2021 to December 31, 2021 (the "**Annual Financial Statements**"), each of which is available on SEDAR at www.sedar.com. All financial information is reported in Canadian dollars and all per share information in based on diluted weighted average common shares, unless otherwise noted. Tabular amounts in this MD&A are in thousands of Canadian dollars, except share and per share amounts.

The Financial Statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements and the expenses during the reporting period. Management reviews these estimates, including those related to accruals and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

Readers are cautioned that the MD&A should be read in conjunction with HEVI's disclosure elsewhere in this MD&A, including in the sections entitled "Use of Judgements and Key Sources of Estimation Uncertainty", "Business Risks and Uncertainties" and "Forward-looking Statements" included at the end of this MD&A.

About Helium Evolution Incorporated

HEVI is a public company trading on the TSX Venture Exchange ("**TSXV**") under the symbol HEVI.

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). Duckhorn was incorporated under the Business Corporations Act (British Columbia) on March 25, 2019. On March 16, 2022, Helium Evolution Private and Duckhorn completed a business combination 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 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 takeover 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.

The Company has significant land holdings in Saskatchewan's "helium fairway", having been granted helium permits by the Government of Saskatchewan covering 5.6 million acres of land. Helium permits in Saskatchewan have an initial three-year term, which can be extended for an additional two-year term and can be converted to 21-year leases at any time. At June 30, 2023, HEVI holds a 99.8% net working interest in these permits, encumbered by a 4.25% government royalty and a 2.5% gross overriding royalty ("**GORR**").

Selected Financial Information

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Financial				
Net loss	331	1,342	642	2,996
Net loss per share, basic and diluted	(0.00)	(0.02)	(0.01)	(0.05)
Cash and cash equivalents	7,728	14,216	7,728	14,216
Working capital	8,781	14,803	8,781	14,803
Total assets	13,027	17,674	13,027	17,674
Total liabilities	375	976	375	976
Weighted average shares Basic and diluted[1]	96,033,974	79,118,595	96,033,974	60,467,902

[1] The weighted average number of common shares outstanding is not increased for outstanding stock options and warrants when the effect is anti-dilutive.

Selected Quarterly Financial Information

Period ended	Total revenue	Net loss	Net loss per share
June 30, 2023	-	331	0.00
March 31, 2023	-	311	0.00
December 31, 2022	-	520	0.01
September 30, 2022	-	3,847	0.04
June 30, 2022	-	1,342	0.02
March 31, 2022	-	1,654	0.04
December 31, 2021	-	389	0.01
September 30, 2021	-	238	0.01

Outlook

The Company continues to execute its strategy of acquiring and developing its significant land base in Saskatchewan with the ultimate goal of helium production.

On June 28, 2022, the Company entered into a farmout agreement (the "**Original Farmout Agreement**") with North American Helium ("**NAH**") pursuant to which NAH will drill a total of five wells, incurring 100% of the drill expenditures, on three predetermined blocks of land in Saskatchewan comprising approximately 2.3 million acres located west of the third meridian (the "**Blocks**"). For each test well drilled, NAH will earn an 80% operated interest in the section on which the well was drilled plus nine contiguous sections of land adjoining to the well. HEVI will retain a 20% working interest in the earned lands and each successful well drilled by NAH. NAH must drill one well in each of the three Blocks, with no more than three wells drilled in any given Block.

In connection with the Original Farmout Agreement, HEVI and NAH have entered into a standstill agreement pursuant to which NAH will be subject to certain standstill restrictions relating to, among other things, the acquisition of HEVI securities for a 24-month period following completion of the June 2022 Offerings, as defined herein. In addition, HEVI and NAH have entered into a pro-rata participation and board nomination agreement pursuant to which NAH will be permitted to maintain its pro rata undiluted percentage of HEVI common shares following completion of the June 2022 Offerings for a 24-month period. Furthermore, should NAH's ownership reach over 10% on an undiluted basis in the next two years, NAH will have a right to appoint a nominee to the HEVI board of directors.

On October 21, 2022, the Company announced that it had expanded and accelerated the Original Farmout Agreement and entered into an amended and restated farm out agreement (the "**Amended Farmout Agreement**") as well as a seismic option agreement and a seismic review option agreement (the "**Seismic Review Option**" and collectively with the seismic option agreement, the "**Seismic Agreements**") with NAH. As a result of the Amended Farmout Agreement, NAH drilled the first two test wells on HEVI lands in the fourth quarter of 2022. The first test well was drilled in November 2022. After reaching total depth, NAH abandoned the open hole portion, but elected to suspend the cased hole portion to afford optionality and the ability to re-enter it at a later date. The second test well was spud in December 2022 and after reaching total depth NAH informed HEVI that they would be abandoning the hole. Consistent with the Original Farmout Agreement, costs for the test wells are funded 100% by NAH and HEVI will retain a 20% working interest. Based on the success of the remaining test wells, NAH has committed to expeditiously drill development wells on the earned farmout blocks, subject to surface access and regulatory approvals.

Subsequent to June 30, 2023, NAH spud its third test well location on the McCord block at 12-11-05-10W3 on July 14, 2023 and after reaching total depth NAH informed HEVI that they would be abandoning the hole. NAH spud its fourth test well location at 12-13-10-08W3 on the Gravelbourg block on July 25, 2023. After reaching total depth, NAH abandoned the open hole portion, but elected to suspend the cased hole portion to afford optionality and the ability to re-enter it at a later date. NAH selected its fifth test well location at 11-13-13-29W3 on the Fox block, to be spud by the first quarter of 2024.

Pursuant to the Seismic Agreements, the number of wells to be drilled by NAH could be expanded by 60%, from five wells per the Original Farmout Agreement to up to eight wells. NAH elected to drill two wells per the Seismic Option Agreement at 5-36-03-09W3 ("**Test Well Area #1**") and 6-13-05-07W3 ("**Test Well Area #2**") and elected to drop the Seismic Review Option well. Both Test Well Area #1 and Test Well Area #2 are to be spud by August 31, 2023. Finally, at no cost, HEVI received NAH's proprietary seismic recently used to drill three successful NAH wells in the Mankota area plus all seismic shot on the Seismic Agreements land, estimated to be approximately 200km, giving HEVI greater insight and valuable data that can be used in identifying future drilling targets. The Amended Farmout Agreement and the Seismic Agreements offer HEVI near-term drilling catalysts that could accelerate cash flow generation without incurring up-front capital costs and allows the Company to retain 99% of its land base.

In addition to activities under the Amended Farmout Agreement and Seismic Agreements, the Company is continuing to undertake extensive geological and geophysical modelling, including the acquisition of additional seismic, shooting of proprietary 2D seismic, seismic reprocessing and interpretation and well log integration.

Results of Operations

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Exploration and evaluation	12	833	23	838
Share based compensation	167	96	338	212
Listing expense	-	-	-	1,142
Transaction costs	-	-	-	96
Interest expense (income) (net)	(98)	(25)	(198)	7
Depletion and depreciation	13	13	26	25
General and administrative	237	425	453	676
Net loss	331	1,342	642	2,996

Capital Expenditures and Exploration and Evaluation

The following summarizes the Company’s capital spending:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Seismic	57	62	727	808
Geological and geophysical	86	93	177	213
Drilling	2	896	6	901
Royalty assets	119	-	119	-
Helium permits	36	7	165	77
Office equipment	-	-	-	5
Total capital spending- cash	300	1,058	1,194	2,004

Capital spending for the three and six months ended June 30, 2023 totaled $300,000 and $1,194,000, respectively (three and six months ended June 30, 2022 - $1,058,000 and $2,004,000, respectively). In the first two quarters of 2023, the majority of the Company’s capital spending was focused on building out its extensive seismic database, whereas in the first two quarters of 2022, HEVI acquired and shot seismic and began drilling its first well in June 2022. To date, the Company has acquired approximately 2,000 km of seismic and is in the process of interpreting the seismic to select future drilling targets. Additionally, in the second quarter of 2023, the Company re-purchased 0.5% of the GORR from a former officer of the Company.

Share-Based Compensation Expense

The Company has an incentive Stock Option Plan (the “**Option Plan**”) for directors, officers, employees, and consultants, under which the Company may issue stock options to purchase common shares of the Company provided that the amount of incentive stock 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.

	Three months ended		Six months ended	Period ended
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Total share-based compensation	246	147	498	327
Capitalized portion of share-based compensation	(79)	(51)	(160)	(115)
Share-based compensation	167	96	338	212

The amount recorded as share-based compensation expense for the three and six months ended June 30, 2023 totaled $167,000 and $338,000, respectively (three and six months ended June 30, 2022, $96,000 and $212,000, respectively). Additionally, $79,000 and $160,000 of share-based compensation was capitalized to E&E assets during the three and six months ended June 30, 2023, respectively (three months ended June 30, 2022 – $51,000 and $115,000, respectively).

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	3.4
Issued	5,210,000	0.37	4.1
Forfeited	(1,002,710)	0.34	3.7
December 31, 2022	7,625,718	0.34	3.8
Issued	1,950,000	0.16	4.6
June 30, 2023	**9,575,718**	**0.30**	**4.0**

[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, 2022	1,866,287	0.33
June 30, 2023	3,391,431	0.34

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 or capitalized to E&E assets over the option vesting period with a corresponding offset to contributed surplus.

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

Share price	0.160
Risk-free interest rate	2.93%
Expected life (years)	5
Expected volatility	97%
Forfeiture rate	9.0%
Expected dividends	Nil
Fair value	0.12

Interest Income (net)

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Interest expense (income) (net)	(98)	(25)	(198)	7

Net interest income recorded in the three and six months ended June 30, 2023 of $98,000 and $198,000, respectively (three and six months ended June 30, 2022, income of $25,000 and expense of $7,000, respectively). Interest income in the three and six months ended June 30, 2023 was principally a result of investing excess cash balances into redeemable short-term guaranteed investment certificates with interest rates ranging from 4.85% to 5.35%. Interest expense in the six months ended June 30, 2022 was principally incurred on a short-term loan that was repaid during the first quarter of 2022, offset by interest income on excess cash balances in the second quarter of 2022.

Depletion and Depreciation Expense

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Depletion and depreciation expense	13	13	26	25

Depletion and depreciation expense in the amount of $13,000 and $26,000 was recorded in the three and six months ended June 30, 2023, respectively, and is related to the Company's office equipment and right-of-use assets (three and six months ended June 30, 2022, $13,000 and $25,000, respectively). Office equipment is depreciated on a straight-line basis over a period of two years and the Company's right-of-use assets are depreciated over the term of the Company's office and office equipment leases.

General and Administrative Expense

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
General and administrative expense	237	425	453	676

General and administrative expenses ("**G&A**") for the three and six months ended June 30, 2023 totaled $237,000 and $453,000, respectively (three and six months ended June 30, 2022, $425,000 and $676,000, respectively). The Company has incurred costs associated with being a public company including management salaries, consulting fees, software fees, office related expenses, legal and regulatory fees, marketing and investor relations. The decrease in G&A period over period is mainly due to non-recurring marketing activities undertook in the second quarter of 2022.

Share Capital

The following table details the number of common shares issued and outstanding:

Common Shares	Number of Shares	Share Equity
December 31, 2021[1]	34,184,280	1,915
Shares issued in exchange for subscription receipts	41,220,861	12,300
Shares issued as part of Duckhorn reverse takeover[2]	3,333,333	1,000
Shares issued as part of June 28, 2022 private placement	17,295,500	6,074
Share issuance costs	-	(2,073)
December 31, 2022 and June 30, 2023	96,033,974	19,216

[1] Each common share reflects the 1.00542 exchange ratio in accordance with the Amalgamation.
[2] Issued to former Duckhorn shareholders in accordance with the Amalgamation.

The following table details the number of warrants issued and outstanding as at June 30, 2023:

	Number of Warrants	Warrant Equity
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
December 31, 2022 and June 30, 2023	10,786,276	1,425

[1] Each warrant reflects the 1.00542 exchange ratio in accordance with the Amalgamation.
[2] In connection with the June 2022 Offerings, the warrants were valued using the Black-Scholes 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.
[3] Issued to a finder in connection with the strategic investor private placement.

On November 10, 2021, the Company 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 Agreement.

On June 28, 2022, HEVI closed a strategic investor private placement, 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). In connection with the June 2022 Offerings, HEVI issued 17,295,500 units comprised of 17,295,500 common shares and 5,765,152 warrants. In addition, 175,000 warrants were issued to a finder in connection with the strategic investor private placement.

At the date of this MD&A, there are 96,033,974 common shares, 9,575,718 options and 10,786,276 warrants issued and outstanding.

Liquidity, Financing and Capital Resources

	June 30, 2023
Opening cash position	9,128
Inflow of funds	
Tubing and casing	89
Total inflow of funds	89
Outflow of funds	
Capital expenditures	(1,194)
Lease payments	(8)
Cash flow used in operations, before changes in non-cash working capital	(255)
Changes in working capital	(32)
Total outflow of funds	(1,489)
Closing cash position	7,728

Capital Funding and Resources

As at June 30, 2023, the Company's working capital balance was $8,781,000 (December 31, 2022 - $10,236,000), including cash and cash equivalents of $7,728,000 and casing inventory of $903,000 which was pre-purchased for a multi-well drilling program. The casing inventory is considered liquid, given the supply chain issues facing the oil and gas industry.

The working capital balance, including the casing inventory, is expected to be sufficient to fund the Company's capital program in 2023. The Company has considerable flexibility in managing capital given the terms of helium permits granted by the Government of Saskatchewan. Any commitments related to the lease and permit terms are incorporated into the capital budget.

Financial Risk Management

HEVI is exposed to a variety of financial and non-financial risks inherent in the helium business, including, but not limited to: equity price risk, commodity price risk, foreign exchange, credit availability and liquidity risk. 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.

(a) Credit risk

Credit risk is the risk that a third party will not complete its contractual obligations under 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 June 30, 2023, the Company’s accounts receivables consisted of sales taxes paid on G&A 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.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company’s income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company’s return.

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any significant interest rate exposure as at June 30, 2023.

Foreign exchange risk:

Helium prices are based on US dollar denominated commodity prices. As a result, the Canadian dollar price received by the Company will be affected by the Canadian and US dollar exchange rates once helium revenues are realized.

(c) 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 G&A 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.

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.

Commitments

The Company holds helium exploration permits in Saskatchewan with an initial three-year term. The Company has annual lease expenditure commitments as follows: 2023 – $142,000, 2024 – $452,000 and 2025 - $564,000 and annual permit expenditure commitments as follows: 2023 – $116,000, 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.

The Company entered into an initial two-year office lease agreement, commencing November 1, 2021 and ending October 31, 2023. The office lease was renewed in June 2023 for an additional two years, beginning November 1, 2023 and ending October 31, 2025. Additionally, the Company has entered into office equipment leases. The lease commitments as at June 30, 2023 are as follows:

	1 year	2 years	3 years	> 3 years	Total
Lease obligations	20	21	12	1	54

Related Party Transactions

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 to companies controlled by such individuals. As a result, the Company assigned a value of $nil to E&E expense for the three months ended June 30, 2023 (year ended December 31, 2022 - $5,000). On May 26, 2023, the Company re-purchased 0.5% of the GORR from a former officer of the Company.

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 $1,500,000 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.

Off Balance Sheet Arrangements

The Company had no material off-balance sheet arrangements outstanding as at June 30, 2023.

Financial Instruments

Financial instruments of the Company include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying values of the financial instruments approximate their fair values due to their relatively short periods to maturity.

Use of Judgements and Key Sources of 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.

(i) Identification of cash generating units

The Company's assets are aggregated into cash generating units ("**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 was based on management's judgment regarding shared infrastructure, geographical proximity, and similar exposure to market risk and materiality.

(ii) Exploration and evaluation

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 reserves 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.

(iii) 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.

(iv) Lease accounting regarding incremental borrowing rate and lease term

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 right-of-use 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.

(v) Warrants and share options

The estimated fair value of the warrants and share options as part of the share and warrant issuance and share option grants uses the Black-Scholes pricing model incorporating assumptions on volatility, forfeitures, risk-free interest rate and the expected term.

(vi) 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.

(vii) 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.

Business Risks and Uncertainties

The Company's business of exploring for resources involves a variety of operational, financial, and regulatory risks that are typical in the natural resource industry. The Company has not commenced commercial operations, and has no proven history of performance, earnings, or success. There is no guarantee that the Company will ever be able to achieve profitable results or successfully execute its business plan, and the Company's common shares must be considered speculative, primarily due to the nature of the Company's business and early stage of development.

The Company's property interests are located in Canada. Any changes in governmental laws, regulations, economic conditions or shifts in political attitudes or stability are beyond the control of the Company and may adversely affect its business. In addition, shortages of skilled labour and deficiencies in infrastructure may negatively influence costs of exploration and development.

The success of the Company is dependent, among other things, on obtaining sufficient funding to enable the Company to explore and develop its property interests or to fulfil its obligations under applicable agreements. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of new projects with the possible loss of such properties. The Company will require new capital to continue to operate its business and to continue with exploration on its properties, and there is no assurance that capital will be available when needed, if at all. It is likely such additional capital will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders.

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to conduct exploration and development work at its projects. Failure to obtain such licenses and permits may adversely affect the Company's business as the Company would be unable to legally conduct its intended exploration work, which may result in it losing its interest in the subject property.

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any resources discovered. The marketability and price of helium which may be produced or acquired by the Company will be affected by numerous factors beyond the control of the Company. These other factors include but are not limited to: delivery uncertainties related to the proximity of its resources to processing facilities; and extensive government regulation relating to price, taxes, royalties, allowable production, land tenure, the import and export of minerals and many other aspects of the mineral extraction business. Declines in resource prices may have a negative effect on the Company.

The resource industry is intensely competitive, and the Company must compete in all aspects of its operations with a substantial number of other corporations which may have greater technical or financial resources. The Company may be unable to acquire drilling rigs, service rigs, materials, additional attractive resource properties, employees and contractors, service providers and other items on terms it considers to be acceptable.

The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mineral extraction industry operations, which could result in environmental pollution. Failure to comply with such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, and fines and penalties for non-compliance are becoming more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers, and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

An inability to manage costs could have a material adverse effect on the Company. The Company's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices and additional government intervention through stimulus spending or additional regulations. The Company's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flow.

Certain directors and officers of the Company are also directors, officers and shareholders of other natural resource or public companies, as a result of which they may find themselves in a position where their duty to another company conflicts with their duty to the Company. There is no assurance that any such conflicts will be resolved in favour of the Company. If any of such conflicts are not resolved in favour of the Company, the Company may be adversely affected.

The Company's business, financial condition and results of operations may be affected by a number of factors, including, but not limited to, the factors described within the Forward-looking Statements section of this MD&A, the Company's prospectus dated March 11, 2022 and the Company's other disclosure documents filed with Canadian securities regulatory authorities.

Forward-looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements, or developments in the industry to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects," "plans," "anticipates," "believes," "intends," "estimates," "projects," "potential" and similar expressions, or that events or conditions "will," "would," "may," "could" or "should" occur.

Forward-looking statements in this document include statements regarding the Company's ability to identify future exploration and drilling targets, timeline of drilling, the purchase of 2D seismic and activities related to the Amended Farmout Agreement and Seismic Agreements, increasing shareholder value, the Company’s ability to preserve capital, drilling timeline and results of NAH drills, the Company’s ability to achieve commercial production, the sale of tubing and casing and other statements that are not historical facts. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors and risks include, among others: HEVI may require additional financing from time to time in order to continue its operations; NAH may be unsuccessful in drilling commercially productive wells; NAH may defer the drilling of wells; NAH may defer the selection of locations; NAH may choose not to elect to drill under the Seismic Agreements; the Company may choose to defer, accelerate or abandon its drilling plans; financing may not be available when needed or on terms and conditions acceptable to the Company; new laws or regulations could adversely affect the Company's business and results of operations; stock markets have experienced volatility that has often been unrelated to the performance of companies which may adversely affect the price of the Company's securities regardless of its operating performance; and the granting of additional permits is subject to a competitive process over which the Company has no control.

When relying on forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors and risks and other uncertainties and potential events. The Company has assumed that the material factors referred to in the previous paragraphs will not cause such forward-looking statements and information to differ materially from actual results or events. However, the list of these factors is not exhaustive and is subject to change and there can be no assurance that such assumptions will reflect the actual outcome of such items or factors.

Helium Evolution Incorporated

Condensed Interim Financial Statements

As at June 30, 2023 and for the three and six month periods ended June 30, 2023 and June 30, 2022

Helium Evolution Incorporated

Condensed Interim Statements of Financial Position
(unaudited)

(thousands of Canadian Dollars)	As at June 30, 2023	As at December 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	7,728	9,128
Accounts receivable *(note 10)*	326	263
Tubing and casing	903	992
Deposits and prepaid expenses	130	36
Total Current Assets	9,087	10,419
Non-Current Assets		
Property, plant and equipment *(note 3)*	58	51
Exploration and evaluation assets *(note 4)*	3,882	2,552
Total Non-Current Assets	3,940	2,603
Total Assets	13,027	13,022
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 10)*	286	163
Lease obligations *(note 5)*	20	20
Total Current Liabilities	306	183
Non-Current Liabilities		
Lease obligations *(note 5)*	34	9
Decommissioning obligations *(note 6)*	35	34
Total Non-Current Liabilities	69	43
Total Liabilities	375	226
Shareholders' Equity		
Share capital *(note 7)*	19,216	19,216
Warrants *(note 7)*	1,425	1,425
Contributed surplus	1,428	930
Deficit	(9,417)	(8,775)
Total Shareholders' Equity	12,652	12,796
Total Liabilities and Shareholders' Equity	13,027	13,022

See accompanying notes to the condensed interim financial statements.

Commitments *(notes 4 and 11)*

Helium Evolution Incorporated

Condensed Interim Statements of Loss and Comprehensive Loss
(unaudited)

(thousands of Canadian Dollars, except number of shares and per share amounts)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Expenses				
Exploration and evaluation *(note 4)*	12	833	23	838
Share-based compensation *(note 8)*	167	96	338	212
Listing expense	-	-	-	1,142
Transaction costs	-	-	-	96
Interest expense (income) (net)	(98)	(25)	(198)	7
Depletion and depreciation *(note 3)*	13	13	26	25
General and administrative	237	425	453	676
Total expenses	331	1,342	642	2,996
Net loss and comprehensive loss	(331)	(1,342)	(642)	(2,996)
Weighted average number of shares outstanding - basic and diluted	96,033,974	79,118,595	96,033,974	60,467,902
Net loss per common share - basic and diluted	(0.00)	(0.02)	(0.01)	(0.05)

See accompanying notes to the condensed interim financial statements.

Helium Evolution Incorporated

Condensed Interim Statements of Cash Flows
(unaudited)

(thousands of Canadian Dollars)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash provided by (used in):				
Operating activities:				
Net loss for the period	(331)	(1,342)	(642)	(2,996)
Exploration and evaluation *(note 4)*	12	833	23	838
Share-based compensation *(note 8)*	167	96	338	212
Listing expense	-	-	-	1,142
Depletion and depreciation *(note 3)*	13	13	26	25
Change in non-cash working capital *(note 9)*	(42)	(67)	(170)	(177)
Cash used in operating activities	(181)	(467)	(425)	(956)
Financing activities:				
Shares issued, net of share issuance costs	-	6,351	-	17,697
Lease obligations *(note 5)*	(8)	(7)	(8)	(9)
Proceeds from promissory *(note 13)*	-	-	-	1,500
Payment of promissory *(note 13)*	-	-	-	(1,500)
Change in non-cash working capital *(note 9)*	-	(25)	-	(111)
Cash provided by (used in) financing activities	(8)	6,319	(8)	17,577
Investing activities:				
Property, plant and equipment *(note 3)*	-	-	-	(5)
Exploration and evaluation assets *(note 4)*	(300)	(1,058)	(1,194)	(1,999)
Tubing and casing, net	-	-	89	-
Change in non-cash working capital *(note 9)*	(12)	(697)	138	(572)
Cash used in investing activities	(312)	(1,755)	(967)	(2,576)
Net change in cash and cash equivalents	(501)	4,097	(1,400)	14,045
Cash and cash equivalents, beginning of period	8,229	10,119	9,128	171
Cash and cash equivalents, end of period	7,728	14,216	7,728	14,216
Cash and cash equivalents is comprised of:				
Cash	134	2,211	134	2,211
Cancellable guaranteed investment certificates	7,594	12,005	7,594	12,005

See accompanying notes to the condensed interim financial statements.

Helium Evolution Incorporated

Condensed Interim Statements of Changes in Shareholders’ Equity
(unaudited)

(thousands of Canadian Dollars, except number of shares)	Number of Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Total Shareholders’ Equity
Balance, January 1, 2023	96,033,974	19,216	1,425	930	(8,775)	12,796
Share-based compensation *(note 7)*	-	-	-	498	-	498
Net loss for the period	-	-	-	-	(642)	(642)
Balance, June 30, 2023	96,033,974	19,216	1,425	1,428	(9,417)	12,652

(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 issue costs	61,849,694	17,359	872	-	-	18,231
Share-based compensation *(note 7)*	-	-	-	327	-	327
Net loss for the period	-	-	-	-	(2,996)	(2,996)
Balance, June 30, 2022	96,033,974	19,274	1,424	408	(4,408)	16,698

See accompanying notes to the condensed interim financial statements.

Notes to the Condensed Interim Financial Statements
(unaudited)
As at June 30, 2023 and for the three and six month periods ended June 30, 2023 and June 30, 2022

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.

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 unaudited condensed interim financial statements (the "**financial statements**") have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2022.

The Company's financial statements are expressed in thousands of Canadian dollars, unless otherwise stated. The presentation currency is Canadian dollars.

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.

The financial statements were authorized for issue by the Board on August 22, 2023.

3. Property, Plant and Equipment Assets

Cost	Total
Balance, December 31, 2021	90
Additions	5
Right-of-use asset additions	17
Balance, December 31, 2022	112
Right-of-use asset additions	33
Balance, June 30, 2023	**145**

Accumulated depletion and depreciation	Total
Balance, December 31, 2021	10
Depletion and depreciation	51
Balance, December 31, 2022	61
Depletion and depreciation	26
Balance, June 30, 2023	**87**

Net book value	Total
Balance, December 31, 2022	51
Balance, June 30, 2023	**58**

As at June 30, 2023, property, plant and equipment is comprised of office equipment with a net book value of $8,000 (December 31, 2022 – $24,000) and right-of-use assets with a net book value of $50,000 (December 31, 2022 – $27,000).

4. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2021	562
Additions	6,468
E&E expense	(4,478)
Balance, December 31, 2022	2,552
Additions	1,353
E&E expense	(23)
Balance, June 30, 2023	**3,882**

The Company holds helium exploration permits in Saskatchewan with an initial three-year term. The June 30, 2023 additions include $159,000 of non-cash share-based compensation (December 31, 2022 – $323,000) and $nil of non-cash decommissioning obligations (December 31, 2022 – $34,000). During the three months ended June 30, 2023, $23,000 of exploration and evaluation ("**E&E**") assets was recognized in E&E expense, whereas $4,478,000 of E&E expense was recognized in the year ended December 31, 2022 due to the overall negative results of the drilling program. On May 26, 2023, the Company re-purchased 0.5% of the gross overriding royalty ("**GORR**") from a former officer of the Company (see note 13).

The Company has annual lease expenditure commitments as follows: remainder of 2023 – $142,000, 2024 – $452,000, 2025 - $564,000 and annual permit expenditure commitments as follows: remainder of 2023 – $116,000, 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.

At June 30, 2023, the Company has E&E assets of $3,882,000. There were no impairment indicators for the exploration and evaluation assets as of June 30, 2023.

5. Lease Obligations

	Total
Balance, December 31, 2021	33
Additions	17
Lease payments	(21)
Balance, December 31, 2022	29
Additions	33
Lease payments	(8)
Balance, June 30, 2023	**54**
Current portion of lease obligations	**20**
Non-current portion of lease obligations	**34**

	June 30, 2023	December 31, 2022
Lease payments	8	21
Interest payments	(1)	(2)
Total cash outflow	**7**	**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 period ended June 30, 2023 was 10.0% (December 31, 2022 – 10.0%).

6. Decommissioning Obligations

	June 30, 2023	December 31, 2022
Decommissioning obligations, beginning of period	**34**	-
Additions	**-**	33
Change in estimates	**-**	1
Accretion	**1**	-
Decommissioning obligations, end of period	**35**	**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:

	June 30, 2023	December 31, 2022
Undiscounted, uninflated cash flows	**37**	36
Risk free rate	**4.40%**	3.94%
Inflation rate	**3.31%**	3.25%
Timing of cash flows	**1.5 years**	1.8 years

7. 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 June 30, 2023:

	Number of Class A Common Shares	Share Equity
Balance, December 31, 2021	34,000,000	1,915
Exchanged on reverse takeover[1]	(34,000,000)	(1,915)
Issued on reverse takeover[1]	34,184,280	1,915
Shares issued in exchange for subscription receipts[2]	41,220,861	12,300
Shares issued as part of Duckhorn reverse takeover	3,333,333	1,000
Shares issued as part of June 28, 2022 private placement[3]	17,295,500	6,074
Share issuance costs	-	(2,073)
Balance, December 31, 2022 and June 30, 2023	**96,033,974**	**19,216**

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

[2] 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.

[3] 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 June 30, 2023:

	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 and June 30, 2023	**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	0.3
Issued	5,940,152	0.70	1.0
December 31, 2022 and June 30, 2023	**10,786,276**	**0.52**	**0.7**

At June 30, 2023, all warrants outstanding are exercisable.

8. 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	3.4
Issued	5,210,000	0.37	4.1
Forfeited	(1,002,710)	0.34	3.7
December 31, 2022	7,625,718	0.34	3.8
Issued	1,950,000	0.16	4.6
June 30, 2023	**9,575,718**	**0.30**	**4.0**

[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, 2022	1,866,287	0.33
June 30, 2023	**3,391,431**	**0.34**

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:

	June 30, 2023	December 31, 2022
Share price	0.16	0.37
Risk-free interest rate	2.93%	3.15%
Expected life (years)	5	5
Expected volatility	97%	101%
Forfeiture rate	9.0%	9.0%
Expected dividends	Nil	Nil
Fair value	0.12	0.28

9. Supplemental Cash Flow Information

	June 30, 2023	June 30, 2022
Accounts receivable	(61)	(201)
Deposits and prepaid expenses	(94)	(1,231)
Accounts payable and accrued liabilities	123	572
Change in non-cash working capital	**(32)**	**(860)**
Allocated to:		
Operating	(170)	(177)
Financing	-	(111)
Investing	138	(572)
Change in non-cash working capital	**(32)**	**(860)**

10. 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 June 30, 2023, 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 June 30, 2023 are outlined in the table below:

	1 year	2 years	3 years	> 3 years	Total
Accounts payable and accrued liabilities	286	-	-	-	286
Lease obligations	20	21	12	1	54
Total	306	21	12	1	340

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 June 30, 2023, the Company had a positive working capital balance of $8.8 million (December 31, 2022 - $10.2 million), inclusive of tubing and casing of $0.9 million which was pre-purchased and not utilized.

11. Commitments
The Company holds helium permits that require minimum expenditures on an annual basis (see note 4).

The Company entered into a two-year office lease agreement, commencing November 1, 2021, and ending October 31, 2023. The office lease was renewed in June 2023 for an additional two years, beginning November 1, 2023 and ending October 31, 2025. Additionally, the Company has entered into certain office equipment leases. The lease commitments as at June 30, 2023 are as follows:

	1 year	2 years	3 years	> 3 years	Total
Lease obligations	20	21	12	1	54

12. Financial Instruments
At June 30, 2023, 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 June 30, 2023 approximate their respective fair values due to the short-term nature of these instruments.

13. Related Party Transactions

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 $nil to E&E expense in the three-month period ended June 30, 2023 (year ended December 31, 2022 - $5,000). On May 26, 2023, the Company re-purchased 0.5% of the GORR from a former officer of the Company.

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.